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Memo to: Mary Kate Grant
From : Tony Snow
Re : the Houston, fast-track speech

Here are a couple of fast-track thoughts, with news stories attached. We ought to keep an eye on the news during the next couple of weeks. If we can give a political edge to a tough speech, we might be able to get ourselves some decent news coverage, and put the bad guys on the defensive.

1) Gephardt has begun pumping the "no job loss" argument. We ought to take pains to destroy it (a) in terms of recent history and (b) in terms of common sense. Gephardt's argument would beggar everyone: It hurts Americans by raising prices and weakening competitive fitness; it hurts Mexicans by denying them a potential source of wealth and by encouraging middle-class Mexicans to hike over the Rio Grande.

Here's the great irony: Democrats, who consider themselves the friends of the Little Guy, continue to promote programs that protect a very small minority of our workforce and impose grievous hardship on the poor, at home and abroad. If we really wanted to get fiendish, we'd point out that Democrats, who didn't want to protect people "of color" in Kuwait, now want to slap down Mexicans. So much for the Rainbow Coalition. As cogent as this argument may be, it's best left to someone besides the president, although we might find kinder and gentler ways of hinting that those who oppose fast-track legislation, the free-trade proposal, GATT, and the Enterprise for the Americas initiative oppose the programs that offer the most promise to poor, non-white people around the globe.

2) Other members of Congress have started carping about trade with Canada, this time over the matter of our own import duties on pork. The real danger in such initiatives is that members of Congress, trying earnestly to secure unfair advantages for their constituents, end up screwing everybody. When trade relations become too complicated, people just stop trading. Worse, entrepreneurs give up sensible projects because the various hurdles and barriers make it impossible to turn a good idea into the stuff of industrial revolutions.

Ask Peggy to look up recent comments by Gephardt and Bentsen, both of whom have railed consistently against free trade for Mexico. If we can isolate their best arguments, we might be able to spin our own comments in such a way as to slap down the protectacrats without mentioning them or their proposals by name.

Tony

additional $1 billion of US exports will mean more than 20,000 new US jobs. Some jobs will be lost, but more will be created -- higher paying more skilled.

American companies : the progressive elimination of barriers to the flow of goods, services, and investment, as well as strengthened protection of intellectual property rights would benefit a broad spectrum of businesses, workers, farmers and consumers in both countries. Examples from USTR

American exports : ~~Since Mexico joined the GATT in 1986 and started unilaterally lowering trade barriers (tariffs dropped from 200% to top rate of 20%) ,~~ U.S. exports have more than doubled, growing from just over $12 billion to over $28 billion.

→ This country is counting on rising exports to pull the economy out of recession.

IV. **Fast track:**

A. Econ growth is in jeopardy because fast track extension is in jeopardy. Define fast track briefly. As Carla Hills says, neither fast nor on a sure track. We will not

B. **Addressing concerns:** Opponents are using non-trade issues to threaten blockage of fast-track. Administration favors keeping non-trade issues out of the picture, will likely negotiate a series of agreements with Mexico covering labor, environmental and health and safety concerns to be prepared concurrently with trade pact.

Environmental: This Administration wants to ensure that Mexico does as much as humanly possible to protect the environment. Salinas has required all new cars to have catalytic converters this year; EPA assisting Mex gov with their environmental programs. Salinas just shut down largest oil refinery in Mexico for pollution. He's serious.

Wages: Mexican wage rates have already risen very quickly during last few years. That's because greater efficiency means more product means higher wages. Higher productivity will cause wage rates to rise in <u>both</u> countries. Trade surplus has caused their wages to rise, not ours to fall -- as some critics feared.

Immigration: It is in our best interest to stop the exodus of Mexico's most talented people from that country. Mexico is in the midst of a transformation to a free-market economy. It already graduates more engineers per capita than the U.S. does.

Denying jobs and opportunity to Mexicans does nothing to improve their alternatives, like starvation etc. "Pathetic" to argue that we'll become weaker if Mexico becomes stronger. Better customer for US goods. Encouraging investment, creating jobs and lifting wages is the way to discourage illegal immigration -- and not by the border patrol. People will want to stay in Mexico.

Capital flight: Opponents should remember that a free trade agreement won't change the fact that American companies can already move to Mexico if they want to.

There are those in Congress who have long rejected military answers to Lat Am problems, prefering economic answers. But don't talk to me about crop substitution for coca growers and

then refuse to import their flowers and coffee. And the same people who argue that we should cut the border patrols want to withhold opportunities from potential migrants in their own country. Opponents should be as free with their markets as with their words.

Fast track conclusion: We have much to gain from extending fast track: an era of unpredented economic growth, geopolitical stability, lower prices and more choice for consumers, more jobs for workers and a better standard of living for everyone.

By voting no on fast track, Congress will not only have stopped US-Mexican negotiations before they begin -- Congress will have told a new world anxious for free markets and free people that we don't really stnad for that. We don't want in. There goes Mexican agreement; Uruguay Round, and American foreign economic policy goes down the drain.

Conclusion: World revolution toward human freedom; Mexico is successful case study. Cite Salinas reforms, strong economic growth, lowered inflation, privatization. Mexico is leading edge toward free market economy. Not merely a matter of economic advantage to US; it's cutting edge of new world order.

Our appeal to the world to adopt free enterprise has been listened to by countries in Third World. Mexico is now their model. All other countries in Lat Am are looking to the Mexican example of open markets and economic liberalization, Eastern Europe to follow. Shining example of what the economic component of what the New World Order.

L.A.TIMES:03-18-91

PERSPECTIVE ON TRADE 184/53

Protectionists Quake Over Mexico



It's pathetic to argue that we'll become weaker if our poor neighbor grows stronger; consider their grim alternative.

By MICHAEL KINSLEY

Opponents of a free-trade agreement with Mexico, as proposed by the Bush Administration, cannot make the usual protectionist complaint about the absence of a "level playing field." The whole idea of free trade is to level trade barriers on both sides to zero.

Nor can poor Mexico, with one-tenth our per-capita income, be vilified, like Japan, as a monster out to suck our economic life's blood. Instead, the opponents' argument is nearly the opposite: that Mexico is too primitive and impoverished. Unrestricted competition, the case goes, will drag the U.S. economy down to Mexico's level.

The case is wrong. It is impossible for a nation to become poorer by buying the products of cheap foreign labor. Average hourly compensation in 1989 for U.S. workers was $14.31; for Mexicans, $2.32. The difference: $11.99 an hour. But even assuming, incorrectly, that American and Mexican labor are equally productive, there is no national advantage to be gained in barring imports from Mexico. If labor is available for $2.32, paying $14.31 instead doesn't create an extra $11.99 of wealth. It creates nothing. That extra $11.99 is drained from the rest of the economy. The U.S. economy could buy the products in question from Mexico, pay the Americans thereby thrown out of work $10 an hour to do absolutely nothing, and still be $1.99 better off.

Of course, President Bush is not proposing to pay anyone $10 an hour not to work. He wants the overall benefit of unrestricted trade with Mexico without worrying about the costs to individuals who lose their jobs or face downward pressure on their wages. A trade pact will create jobs by opening up Mexican markets and by giving Mexicans more money to spend. Nevertheless, some of that $11.99 ought to be spent on training Americans to do jobs that Mexicans can't. As for Mexico infecting us with a Mexican standard of living: what will do so is failure to make sure that our own labor is more valuable.

And doesn't fairness to Mexicans deserve some consideration as well? The AFL-CIO argues nonsensically that a free-trade pact will destroy jobs and reduce wages in the United States, but will not create jobs or raise wages in Mexico. In fact, every job lost by an American will go to a Mexican who is poorer and more desperate.

Opponents of the pact argue that to import the products of labor at wages no American would tolerate is to implicate the United States in immoral exploitation. No doubt there is some level of pay or working conditions, approaching slavery, to which this analysis correctly applies. But many Mexicans are glad for work at wages an American wouldn't consider. Piously denying Mexicans such jobs does nothing to improve the alternatives, like starvation.

The environmental case against free trade with Mexico muddles two questions. One is the effect of Mexican industry on the U.S. environment. Clearly the United States is right to stop Mexican factories from polluting on our side of the border. This is true whether or not the plants in question are making goods for export to the United States.

The second question is whether Mexico's lower environmental standards amount to unfair competition, leading to inevitable erosion of our standards. The answer is: not necessarily. It makes perfect sense for a poorer country to have lower environmental standards than a richer one. Clean air and water are luxury goods; you can afford more of them as you advance. The same is true, to some extent, of worker health and safety standards. If lower standards enable Mexico to, in essence, take on some of our dirty work, it can be a good deal for both societies.

On the other hand, there is a problem in an era of global capital mobility. Companies can play governments off against one another by threatening to move. As a result, two societies can find themselves with lower environmental standards than either might wish to have. It therefore makes sense for countries like Mexico and the United States to negotiate certain minimum shared environmental standards.

Protectionists like to say that free-trade ideology is a hangover from the period after World War II. When the giant American economy dwarfed all its competitors, it was easy for Americans to support competition without trade barriers. Life is different now. But compared with Mexico, the United States is still a mighty giant.

It's not the 1940s anymore, and we all have our private moments of doubt about whether the United States is fit any longer to compete against a rival like Japan. But must we shy away from competition with Mexico? Pathetic, if so.

Michael Kinsley writes the TRB column for the New Republic.

The Heritage Foundation Backgrounder

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March 22, 1991

REFUTING SIX MYTHS ABOUT THE U.S.-MEXICO FREE TRADE ACCORD

INTRODUCTION

The United States, Mexico, and Canada are planning to negotiate a Free Trade Agreement (FTA) that will greatly strengthen their economic and political ties. An FTA would remove such barriers to trade as tariffs and quotas and, by eliminating or weakening laws that restrict foreign investment, would make it easier for the U.S. to invest North and South of its borders.

A North American FTA will offer Americans cheaper goods, increase U.S. exports to Mexico, and make U.S. exports more affordable to the rest of the world. It also will create jobs for Americans, reduce illegal immigration from Mexico, help fight drug trafficking in Mexico, and serve as a model for similar agreements with other Latin American countries.

Something as nearly universally beneficial as the FTA should have little opposition. Yet the proposed agreement is attacked by the leaders of organized labor and environmental groups and by privileged industries like textiles that have enjoyed special government favors to protect them from foreign competition. These groups distort the facts about an FTA and are trying to spawn myths that the trade accord would harm America and Mexico. If Congress believes these myths, it could vote against the FTA with Mexico. This would impair U.S. global competitiveness, destroy American jobs, raise prices, lower the quality of U.S. products, and restrict choices for American consumers.

Economic Muscle. An FTA with Mexico is particularly important to the U.S. because, except for the Soviet Union, Mexico directly affects America's welfare more than any other country. The U.S. shares a 1,933-mile border with Mexico and is home to over 18 million Mexican-Americans. U.S. trade with Mexico has tripled since 1986; in 1990, the U.S. sold $28.4 billion of goods and services to Mexico and bought $30.2 billion from Mexico, for a total trade of $58.6 billion.

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

Free trade will boost the U.S.-Mexican exchange of commerce vastly. Perhaps even more important, by including Canada, an FTA will forge a great North American trading zone 25 percent larger in gross domestic product than the European Community and thus give North America enough muscle to challenge the emerging unified market in Europe and a Japan-dominated East Asian market.

In sum: A North America FTA is America's best bet for maintaining its long-term world economic leadership.

The first steps towards the U.S.-Mexico FTA were taken last year when the two countries announced plans to create a free trade area. Then Canada, this February 6, announced that it wanted to be included in the negotiations between Mexico and the U.S. The U.S. and Canada already have signed their own FTA, which began taking effect in 1989. Formal trilateral negotiations are scheduled to begin this June. The three governments expect to sign an FTA by December and present it to their respective national legislatures for ratification by next spring.

The main obstacle to this is the web of myths being spun by the special interests opposed to an FTA. Such myths include:

Myth # 1: Millions of U.S. workers will lose jobs because they cannot compete with cheap Mexican goods. Untrue. An FTA with Mexico will create, not lose, jobs for Americans. A U.S.-Mexico FTA may cost some jobs in some sectors of such labor-intensive industries as manufacturing and horticulture. But these potential losses will be offset substantially as increases in U.S. exports to Mexico add new jobs for Americans in such industries as capital equipment, high technology, and capital-intensive agriculture, and food processing.

Myth # 2: U.S. businesses investing in Mexico as a result of an FTA will be taking away the capital needed to expand U.S. industries and make them more internationally competitive. Untrue. U.S. capital flowing to Mexico will help American businesses grow because they will become more competitive against not only Pacific Rim nations like Japan, Korea, and the Republic of China on Taiwan, but against the European Community as well. The reason: U.S. companies will be able to combine the technology and highly skilled labor of America with Mexico's cheap labor and resources to cut the prices of their products in the global market. The amount of capital available to U.S. companies will grow as global demand for their products increases and their operations expand.

Myth # 3: Mexico will not be a large market for U.S. goods because most Mexicans cannot afford them. Untrue. Mexican incomes will rise with the economic growth triggered by an FTA. Mexicans then will be able to buy more U.S. goods, which today account for two-thirds of Mexican imports. Indeed, roughly 20 million Mexicans already can afford to buy U.S. goods.

Myth # 4: With an FTA, U.S. companies will move to Mexico to avoid strict U.S. environmental and labor safety standards, causing the loss of American jobs. Untrue. U.S. and Mexican environmental and safety standards are roughly

equal. U.S. companies are moving to Mexico primarily to take advantage of lower labor costs.

Myth # 5: An FTA would undermine human rights in Mexico because the treaty would strengthen the authoritarian central government. Untrue. An FTA will move Mexico toward a stronger democracy and social stability by providing the majority of Mexicans with jobs in industries not controlled by the government. The world has learned that economic freedoms and political freedoms are closely related. Democracy has not flourished in Mexico in part because the central government systematically has denied its citizens economic power independent of the state. Under the pressures of the international free trade to be unleashed by an FTA, state control of the economy will decrease as private industries grow. As economic freedoms grow, so too will political freedoms.

Myth # 6: An FTA with Mexico would increase the flow of illegal immigrants into America. Untrue. The economic growth stimulated by an FTA will encourage Mexicans to stay home where jobs are being created. Lack of an FTA, by contrast, keeps the Mexican economy weak, prompting great numbers of Mexicans to head north in search of work.

The U.S. Congress should not be fooled by the myths fabricated by the FTA's opponents. If the FTA is not approved by Congress, U.S.-Mexico trade would grow slowly at best, inhibited by Mexican tariff laws and investment barriers. Without an FTA, the U.S. would lose a potential 80 million-person export market for its goods, and face no prospect of halting or even slowing the influx of illegal immigration of Mexicans into the U.S.

SIX MYTHS ABOUT FREE TRADE WITH MEXICO

Myth # 1: Millions of U.S. workers will lose jobs because they cannot compete with cheap Mexican goods.

Some leaders of organized labor, environmental organizations, and heavily protected industries like textiles and steel claim that an FTA with Mexico would allow cheap Mexican labor to take away American jobs. In fact, cheap labor from underdeveloped countries not only can strengthen the American economy, but will produce more U.S. jobs. Most U.S. jobs today are created in high technology industries, like computer sciences, aviation, and medicine. This has been possible because since World War II the U.S. has allowed Third World countries to sell cheap, labor-intensive products to U.S. consumers, freeing up U.S. capital for investment in high technology industries.

While Mexicans mainly are semi-skilled and unskilled workers in agriculture, light manufacturing, and electronics assembly plants, the U.S. work force is made

up largely of semi-skilled and highly skilled workers in high technology and services industries. The average hourly rate for manufacturing jobs today is $1.90 per hour in Mexico compared to $14.50 per hour in the U.S.[1] Because of this difference in wages, Mexican companies will be able to compete directly with U.S. companies that employ highly paid, unskilled and semi-skilled labor once tariffs, quotas, and investment barriers are eliminated. America should welcome this competition. It will force inefficient U.S. industries to invest in more high technology and services industries, like telecommunications, aerospace, and computers. Since U.S. companies are most competitive in high-technology and services industries anyway, the economic incentives created by the FTA will boost the very industries that are creating most of the jobs for Americans.[2] To be sure, competition from some low-cost labor companies in Mexico may harm some U.S. labor-intensive companies in the horticulture, textiles, and a few other industries and some of those that assemble electronic and automotive components.

Boosting Competitiveness. Charles Vanik, Counselor for the free-trade group Coalition for North American Trade and Investment, has described how a U.S.-Mexico FTA would create jobs and boost competitiveness in high-technology industries. He told the Subcommittee on Trade of the House Ways and Means Committee on June 28, 1990:

> The key to an abundance of high-wage jobs is to maintain technological leadership, develop the best-educated workforce, and invest worldwide to stay competitive. The true source of job security is a profit-making firm. A firm that's making profits can accumulate capital and make the investments needed to sustain the more productive, better paying, high-skilled jobs that yield a rising standard of living.[3]

Vanik correctly suggests that America's competitiveness is in developing industries that employ skilled labor. The U.S. economy created close to 20 million new jobs in the 1980s, mostly in such skilled-labor industries as banking, capital equipment manufacturing, computer technology, insurance, transportation, and telecommunications. High technology and services-related jobs now account for 76 percent of the U.S. labor force.[4] According to Department of Labor studies,

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1 Rudiger Dornbusch, "It's Time to Open Up Trade with Mexico," *Challenge*, November-December 1990, pp. 52-55.

2 United States International Trade Commission, "The Likely Impact on the United States of a Free Trade Agreement with Mexico," Investigation No. 2353, February 1991, p. 2-1.

3 Testimony of Charles A. Vanik, Counsel for North American Trade and Investment, to the Subcommittee on Trade, House Committee on Ways and Means, June 28, 1990, p. 2.

4 Lois M. Plunkert, "The 1980's: A decade of job growth and industry shifts," *Monthly Labor Review*, September 1990, p. 3.

the fastest growing job sectors during this decade will be in computer technology and services, which will account for 16 million of the estimated 20 million in new jobs by the year 2000.[5] These industries will benefit most from an FTA. The reason: Mexico does not have a developed high technology industry that can compete with America, and as Mexico grows economically it will need many of the services U.S. high technology industries can provide. American firms, in turn, will benefit as Mexican companies import U.S. computers, telecommunication equipment, and other advanced technology products and services.

Benefits to Labor. While the gains in high technology service jobs will help the U.S. economy, the loss of some jobs in labor-intensive industries will not greatly harm it. According to the Department of Labor, manufacturing, the sector most protected by U.S. tariffs and quotas, accounts for only 23 percent of America's gross national product, and employs only 18 percent of the U.S. labor force.[6] The great majority of the U.S. labor force thus is unprotected and will benefit from an FTA.

The experience of the 1980s teaches that protecting industries not only harms the economy, but ends up losing jobs for those industries. For example, steel quotas in the 1980s raised the price of domestic steel and made U.S. steel products more expensive at home and abroad. Since U.S. manufacturers that use steel could not buy cheap raw steel from abroad, their end products were costlier than those made by foreign competitors who could buy the cheap steel. The result: The U.S. manufacturers lost sales and then some 52,400 jobs were lost in U.S. steel-related industries.[7]

Some of the poorest American workers in the U.S., like those in food services and custodial jobs, will not be harmed by an FTA, as some critics fear. There will not be a mass flow of Mexican immigrants into the U.S. once an FTA is underway. Increased trade under an FTA will improve Mexico's economy, encouraging many Mexicans to seek work at home instead of in the U.S. If more Mexicans stay home to take advantage of new opportunities caused by economic growth, more jobs will be available for Americans in food services, construction, and custodial jobs.

Myth # 2: U.S. businesses investing in Mexico as a result of an FTA will be taking away the capital needed to expand U.S. industries and make them more internationally competitive.

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5 George Silvestri and John Lukasiewicz, "Projections of occupational employment, 1988-2000," *Monthly Labor Review*, November 1989, p. 51.

6 Plunkert, *op. cit.* p. 14.

7 Arthur T. Denzau, "Can Trade Protection Save Jobs?" Center for the Study of American Business, April 1987, p. 5.

Critics of an FTA with Mexico often charge that free trade will drain America of badly needed capital. Organizations like the AFL-CIO point to the experience of the *maquiladora* program. Under this program U.S. companies send components, like electronic and automotive parts, to assembly plants in Mexico. The finished product is then sold in the U. S. Labor groups argue that U.S. capital going to these industries prevents American companies from expanding their operations.

To be sure, an FTA would cause a dramatic increase in U.S. investment in Mexico, currently valued at $7.1 billion, by eliminating Mexican laws that limit foreign ownership in Mexican industries.[8] An FTA, for instance, likely will require the Mexican government to allow not only American banks access to Mexican financial markets, but more American investment in petrochemical industries.

However, this U.S. investment in Mexico will not mean a cutback in U.S. industrial growth. Contrary to arguments of organized labor, U.S. companies do not have a fixed amount of capital. Capital is attracted to companies that are competitive. If U.S. companies invest in Mexico by moving part of their operations there they will be able to produce more globally competitive products by combining low-cost labor with high-technology U.S. labor. This competitive edge will allow them to expand their operations in the U.S.

Creating Jobs. One sign of expanded operations is the creation of new jobs. For example, U.S. companies criticized by the AFL-CIO for investing in the *maquiladora* program have expanded industries and created jobs in America. Since the 1960s the *maquiladora* program has created 100,000 American jobs in direct export-related industries as these industries expanded their operations. Even in non-border states like Illinois and Michigan jobs have been created in the manufacture of components such as automobile parts that are then shipped to Mexico for assembly.

Several hundred thousand more jobs in export support industries like food services, real estate, transportation, and warehousing have been created in the border states of Arizona, California, New Mexico, and Texas, where trade has increased dramatically because U.S. companies invested in plants in Mexico.

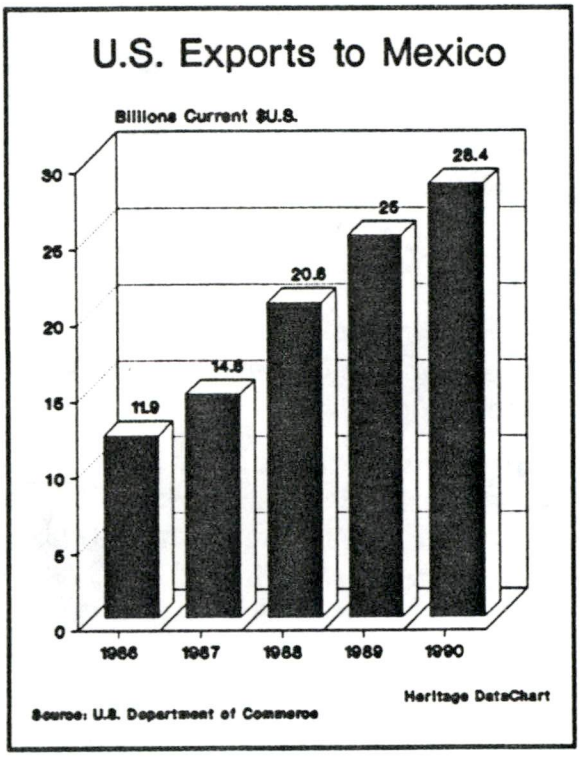
FTA opponents seem not to realize that U.S. companies prevented from investing in Mexico will do so in distant Third World countries. This has an effect quite different from investing in Mexico. When American companies transfer part of their operations to Mexico, most of their work force stays in the U.S., particularly in administration, sales, warehousing, capital equipment and components manufacturing, and management. By contrast, when U.S. industries locate their operations in distant Asia or Europe, the U.S. firms typically do not supply their

8 U.S. International Trade Commission, *op. cit.*, p. 1-7

subsidiaries with capital equipment, warehousing, and administration personnel. This is usually done by foreign companies closer to the factories. Without a U.S.-Mexico FTA, Mexican laws that restrict U.S. investment in Mexico will stay in force. Thus U.S. companies seeking cheaper labor will invest further from home and American jobs will be lost as entire operations, and not just part of them, are moved abroad.

Myth # 3: Mexico will not be a large market for U.S. goods because most Mexicans cannot afford them.

FTA critics argue that American firms will not benefit from an FTA because the income of most Mexicans is too low to buy relatively expensive American products. They cite the fact that per capita income in Mexico today is roughly $2,032 compared to $16,709 for America. The discrepancy in income is so great, they argue, that U.S. export industries will find inadequate purchasing power in Mexico and thus little market for their goods.



Increased Imports. FTA critics who see Mexico's low per capita income hindering U.S. exports fail to recognize other factors that make Mexico a good U.S. export market. Removing Mexican trade barriers like quotas, tariffs, and investment restrictions can greatly increase U.S. exports to Mexico. For instance, in spite of Mexico's low per capita income, U.S. exports to Mexico have increased dramatically beginning in 1986 because the Mexican government has lowered tariffs and quotas since that year. Mexico in 1988 passed Germany to become America's third largest trading partner (after Canada, the largest trading partner, and Japan). U.S.-Mexico trade reached $58.6 billion in 1990.

U.S. exports to Mexico have grown during the past five years without any increase in per capita

GNP in Mexico. This increase in exports has meant more jobs for U.S. export industries. The Department of Commerce estimates that for every $1 billion increase in U.S. exports, 22,800 jobs are created in the U.S.[9] From 1986 to 1989 over 300,000 jobs were created in the U.S. export industries because of the increase in exports to Mexico. The value of U.S. exports to Mexico in this period grew from $10 billion in 1986 to $28.4 billion in 1989.

Another factor overlooked by FTA opponents is that Mexican per capita income will increase because of the economic growth spurred by an FTA. As their incomes increase, Mexicans will buy more U.S. goods. Trade between the U.S. and underdeveloped countries since World War II demonstrates how, as an underdeveloped nation's per capita income rises, it imports more goods. Japan had a per capita income of $960 in 1960 and imported only $4 billion in goods. In 1989 Japan's income was $22,800 per capita and it imported $209 billion in goods and services, $43 billion of which came from the U.S.[10] Taiwan now buys $11 billion in imports from the U.S., and South Korea purchases $13 billion of U.S. goods. These countries bought practically nothing from the U.S. two decades ago, when they were as underdeveloped as Mexico now is. An FTA will help raise Mexican per capita GNP so that it too can buy more imports.

Benefits of Proximity. Another factor FTA opponents overlook is that Mexico's proximity to the U.S. has helped U.S. export industries in the past and will help them even more under an FTA. Today Mexico buys over two-thirds of its capital equipment from the U.S. An FTA would strengthen this export trend because American industries would supply most of the capital equipment and investment for the modernization of Mexico's factories, highways, and telecommunications systems. In contrast, Asia and Europe bought very little U.S. capital equipment during their economic growth. Asian and European, not U.S. companies, over the past thirty years supplied most of the capital equipment, investment, and technology for industries in Asia and Europe.

As Mexican per capita income rises, Mexicans will buy a much larger percentage of their consumer goods from the U.S. than do Asian and European countries. American product name recognition is extremely high in Mexico. Some 65 percent of Mexico's imports already come from the U.S., and experience teaches that this figure surely will rise under an FTA. For example, as tariffs and quotas for many goods such as cars, clothing, and food were eliminated in Mexico during the past three years, Mexicans doubled their imports of U.S. goods.

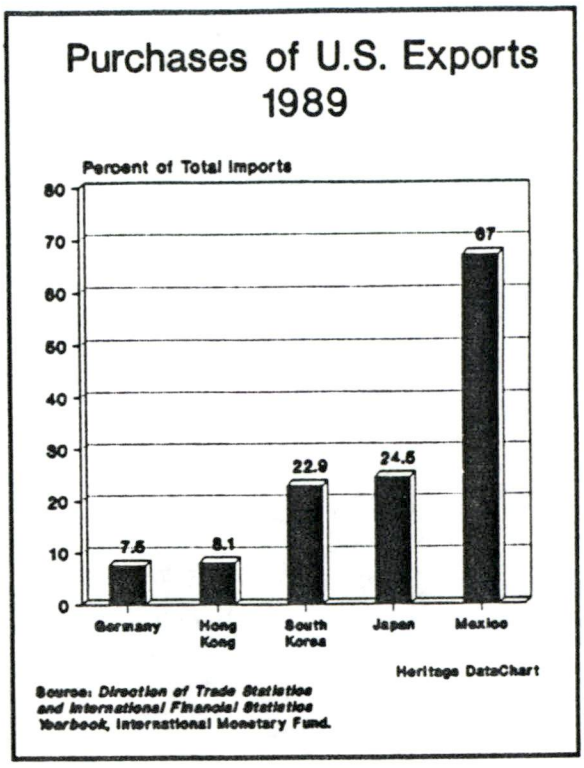
In contrast, Hong Kong buys only 8.1 percent of its imports from the U.S., Japan buys 22.9 percent, and Germany only 7.5 percent. Hong Kong has increased its exports to the U.S. by $14 billion since 1979, but has increased its im-

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9 Lester A. Davis, "Contribution of Exports to U.S. Employment, 1980-1987," U.S. Department of Commerce, International Trade Administration, March 1989, p. 6.

10 International Monetary Fund, International Financial Statistics Yearbook, IMF 1990.

ports from the U.S. by only $4 billion during the same period. As these countries grew they relied on countries closer to their border for most of their imports, which meant that U.S. export industries did not win the new contracts and thus did not create new jobs. This will not happen in Mexico because of its proximity to the U.S., and Mexico thus naturally will turn to American goods and services to modernize its economy.



Another important reason why U.S. export industries would benefit is that an FTA would eliminate a host of specific restrictions on U.S. exports. With these restrictions removed, U.S. goods would be cheaper than they are now to Mexicans, who then could buy more U.S. goods. An FTA, for example, would require that Mexico eliminate the licensing fees that U.S. firms now pay to sell their products in Mexico. Special import licensing restrictions in Mexico, it is estimated, now reduce U.S. sales in Mexico by 20 percent. An FTA also would end laws mandating that goods sold in Mexico, like automobiles, be made from Mexican parts. The majority of U.S. exports to Mexico are in motor vehicle parts, telecommunications equipment, electronic components, processed foods, and basic grains, which today suffer from quotas and 10 percent to 20 percent tariffs. The reduction of these barriers under an FTA would make these products cheaper and more accessible to an already growing Mexican consumer market.

Myth # 4: With an FTA, U.S. companies will move to Mexico to avoid strict U.S. environmental and labor safety standards, causing the loss of American jobs.

Groups like the AFL-CIO and the National Wildlife Federation fear that lax environmental and labor safety standards in Mexico give companies based there an unfair advantage over U.S.-based firms, which must meet tougher standards. Environmental and labor safety regulations in America raise the costs to U.S. companies of producing goods and services. Labor groups argue that since American companies will not be able to compete against their counterparts in Mexico, they will move to Mexico to lower their operation and production costs.

Similar Environmental Laws. These fears are exaggerated. Mexican environmental and labor safety laws are roughly equal to those in the U.S. Before toxic wastes can be transferred across the border, for example, both Mexican and U.S. laws require a 45 day notification to the receiving country, identification of the toxic waste being transferred, and the destination of the toxic waste. Mexican environmental regulations require any company working within 62 miles of the border to comply with all U.S. federal Environmental Protection Agency (EPA) standards. Mexico's environmental protection agency, the Mexican Secretariat of Urban Development and Ecology (SEDUE), has even more power than does the EPA. SEDUE can shut factories immediately for violating environmental and safety regulations; the EPA cannot.

An EPA and SEDUE task force, meanwhile, since September 1989 has been designing ways to police environmental problems in the border region. In this program EPA and SEDUE officials train each other on enforcement methods during plant inspections in both countries. According to EPA officials working on the SEDUE/EPA project, SEDUE enforcement is comparable to the EPA's.[11] Example: SEDUE last year temporarily closed several U.S. businesses in Tijuana, Mexico, that violated SEDUE environmental and safety standards. One unnamed U.S. company operating in the Ciudad Juarez, Mexico, was fined $70,000 for noncompliance of a SEDUE regulation.[12]

Where environmental enforcement problems along the U.S.-Mexico border do exist it is because the SEDUE program is so new, not because of Mexico's lack of commitment to enforcing environmental laws. Many Mexican industrial cities, for instance, do not have enough environmental inspectors. Still, environmental and labor safety enforcement in Mexico has improved under the government of President Carlos Salinas de Gortari. He has said, "along the border, we are introducing strict penalties for polluting companies. In this, we are acting decisively."[13] To prove this, Salinas boosted the SEDUE budget 200 percent from last year to this year. SEDUE has plans, moreover, to add 50 to 150 inspectors in industrial cities like Guadalajara, Mexico City, Monterrey, and Tijuana. This continuing improvement in environmental and labor safety enforcement reduces the incentives for American companies to move to Mexico to escape U.S. standards.

Myth # 5: An FTA would undermine human rights in Mexico because the treaty would strengthen the authoritarian central government.

Critics charge that an FTA with Mexico would strengthen a governmental system with a history of electoral fraud, police brutality, and corruption. Human rights organizations such as Amnesty International, Freedom House, and

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11 Telephone interviews with officials of U.S. Environmental Protection Agency.

12 Telephone interview with Ron Pettis, Chairman of the Environmental Working Group of the Border Trade Alliance, December 3, 1990.

13 "A New Hope for the Hemisphere?" *New Perspectives Quarterly*, Vol. 8, Winter 1991.

Americas Watch, as well as several Mexican political opposition groups such as the *Partido Accion Nacional* (PAN) and the *Partido Revolucionario Democratico* (PRD), have reported a history of civil and human rights violations by Mexico's government.

These groups and reports by and large are correct in their complaint about the non-democratic characteristics of Mexico's political system. This has begun to change since Salinas took office in December 1988.

Salinas Reforms. He has launched a dramatic economic and political reform campaign. He has arrested drug traffickers and corrupt union leaders and has begun reforming the Mexican bureaucracy, prosecuting officials for taking bribes and retraining anti-narcotics police units to ferret out corruption. He also has backed changes to make the electoral laws more democratic. No longer will officials from Salinas's ruling Institutional Revolutionary Party (PRI) be able easily to stuff ballot boxes. The new electoral code, which will takes effect before the federal elections in August 1991, allows any opposition party access to the registry to check its accuracy.

An FTA will accelerate these democratic changes by boosting free market reforms. Already, the planned privatization of the government owned paper company *Productora e Importadora de Papel S.A.* (PIPSA) and the lifting last April of government control over the sale of newsprint has made the press more independent from the government. Now the government no longer can intimidate the press, as it has since the 1930s, by withholding newsprint. The result: a much more open and critical press. Now *El Norte*, a daily newspaper in Monterrey, and such publications as *MIRA*, *Proceso*, and *Jornada* routinely criticize Salinas and his government.

Toward Greater Democracy. Free market and political reforms in Mexico since 1986 have strengthened and supported the progress of each other. One American trade negotiator, who wished to remain anonymous, explained how an FTA would guarantee faster movement toward democracy.

> Mexico has the form of democracy but not the substance.... Mexico might not be a functioning democracy in the Western tradition, but it is not a brutal military country either.... Political freedom and economic freedom go hand in hand. Rising expectations [in Mexico] will create demands for change by creating a system that fosters change.[14]

An FTA will put tremendous pressure on the government to allow the underground economy to operate legally. The reason: An FTA will open the Mexican

(14) United States International Trade Commission, "Phase II: Summary of Views on Prospects for Future United States-Mexican Relations," Investigation No.332-282, October 1990, p. 1-4.

economy to international competition. To survive in an increasingly competitive international market, Mexican businesses will pressure the government to simplify tax laws, reduce excessive regulation, and make credit more easily available through the marketplace. This in turn will encourage the so called "informal sector" to seek legal status. An estimated 30 percent of Mexico's gross domestic product is produced by small and medium businesses that work in the "informal sector" – a part of the economy that operates outside the law to avoid the severe bureaucratic restrictions, regulations, and taxes that exclude it from the mainstream economy. This informal sector, combined with small and medium businesses in the formal sector, account for 80 percent of Mexico's work force.

Growth in the informal sector and among small to medium sized businesses will enrich the middle class. The middle class in Mexico has been politically powerless because it has had little economic independence from the state. Middle class economic success will create a foundation upon which a true democratic system can stand, in the same way a large middle class formed the foundation for a strong democratic system in the U.S.

Myth # 6: An FTA with Mexico would increase the flow of illegal immigrants into America.

The AFL-CIO argues that an FTA will increase illegal immigration to the U.S. Labor union officials say that under an FTA, jobs along the Mexican border will increase as new industries locate to border regions. This would prompt Mexicans to move to border regions from the interior of Mexico, and make it easier for them to migrate illegally to the U.S. Union officials also believe that the rise in Mexican per capita income will enable many more Mexicans to make the costly illegal migration to the U.S.[15]

An FTA will not increase illegal immigration to the U.S. By boosting jobs and per capita incomes in Mexico, an FTA will remove the incentive for Mexicans to leave home and migrate to the U.S. in search of jobs. The root cause of illegal immigration to the U.S. is the failing Mexican economy. Illegal immigration across the border from Mexico increased from 345,353 in 1970 to 1,046,420 in 1990. Last year the U.S. Immigration and Naturalization Service (INS) apprehended 1 million immigrants at the border, a 20 percent increase from 1988. The INS estimates that 85 percent to 90 percent of illegal immigrants crossing the border are Mexicans. During the past two decades Mexicans' per capita income has dropped an estimated 40 percent. The Immigration Reform Control Act (IRCA) of 1986, by placing penalties on U.S. companies that hired undocumented workers, only temporarily slowed illegal immigration. This immigration is once again increasing – because of Mexico's deteriorating economy, especially in rural areas.

15 Contrary to popular belief, it is not the very poorest Mexicans that immigrate, but those who can afford passage across the border.

The Bush and Salinas administrations understand that the only way to reduce the illegal flow of labor from Mexico to the U.S. is to improve economic and social conditions in Mexico. Salinas stated in an interview with *New Perspectives Quarterly* in January that through economic growth "Mexicans would be able to find jobs in Mexico and wouldn't have to look for them in the United States."[16]

CONCLUSION

It is in America's strategic and geopolitical interests to enter into a Free Trade Agreement with Mexico. Political and economic instability in Mexico would increase illegal immigration and drug trafficking and decrease trade. This would directly affect the well-being of Americans. FTA opponents such as labor union officials, environmental groups, and government-protected manufacturing industries spread myths about the harm an FTA supposedly would cause both countries. These myths, if believed, could prompt Congress to defeat the FTA. This then would poison U.S.-Mexico relations, cost jobs in both countries, and decrease America's global competitiveness.

These myths fail to withstand scrutiny and analysis. Critics say, for example, that millions of U.S. workers would lose jobs because they could not compete with cheap Mexican goods. To be sure, an FTA will make consumer goods cheaper for Americans, but there will not be a net loss of U.S. jobs. An FTA will create more U.S. jobs as U.S. companies use skilled American workers to produce high-technology components and unskilled Mexican laborers to assemble products that are globally competitive.

Creating More U.S. Jobs. FTA opponents argue that U.S. capital needed to build industry at home will flow to Mexico. True, Americans will invest in Mexico. But economic growth in Mexico will create a demand for capital goods that will be mainly supplied by U.S. companies. This means more jobs in U.S. industries that produce machinery, telecommunications, computers, and other capital equipment.

Environmental groups charge that an FTA will make it easier for U.S. companies to move their operations to Mexico to avoid strict U.S. environmental and safety standards. Yet Mexican environmental and safety laws are similar to those in the U.S. These laws thus will play only a small role in the decisions of American companies to move their operations to Mexico.

FTA opponents complain that an FTA will increase the flow of illegal immigrants into the U.S., and strengthen a government system in Mexico which has a history of electoral fraud, police brutality, and corruption. But an FTA will do the opposite. It would stem the flood of illegal immigrants coming across the bor-

16 "A New Hope for the Hemisphere?", *op. cit.*

der because it would give Mexicans work in Mexico. And it would serve the causes of human rights and democracy by advancing those economic rights and freedoms which are the foundation of political freedom.

Compelling Case. Except for the Soviet Union, no other country so directly affects the welfare and security of America as does Mexico. An FTA would bind America and Mexico in a common future. A U.S. FTA with Mexico offers both countries great advantages. In contrast, problems between the two countries would grow if free trade between them is not established. For the U.S., the case is irresistibly compelling for the FTA with Mexico.

Wesley Smith
Policy Analyst

Heritage Foundation research intern Bruno Stagno contributed to this study.

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THE WHITE HOUSE

WASHINGTON

March 20, 1991

Dear Key Contact:

Yesterday, the President called for support for his request to Congress for an extension of the "fast track" procedures for implementing new trade agreements.

"Fast track" authority is Congressional approval for the Administration to singularly represent the United States in conducting trade negotiations. While ensuring meaningful participation by Congress and preserving their right to accept or reject a trade agreement, the "fast track" guarantees that Congress will vote on implementing legislation within a fixed period of time, and also guarantees that there will be no amendments to that legislation.

Current fast track authority would have expired on June 1 if the President had not requested an extension by March 1. The requested extension is granted automatically unless either House passes a statutorily prescribed disapproval resolution before June 1. <u>If a disapproval resolution is passed by either House, the fast track is gone for all purposes</u>, and the President's ability to successfully negotiate any trade agreement requiring Congressional approval, bilateral or multilateral, is severely crippled if not eliminated entirely.

The President stressed that, "We need an extension of this 'fast track' authority right now -- to pursue critical new trade initiatives of unprecedented promise." Without fast track, the President cannot assure our negotiating partners that the deal they strike is the deal that will be voted on by the Congress. No trading partner will give its bottom line in negotiations knowing that the bargain could be reopened. Getting this extension is one of our highest legislative priorities because <u>fast track equals fair trade</u>.

A transcript of the President's remarks are enclosed with a Fact Sheet which goes into more detail about the fast track authority. I hope that you will read this material and agree that fast track authority is needed and deserves strong support.

Please do not hesitate to contact this office if you have any questions.

Sincerely,

David M. Carney
Special Assistant to the President and
Director, Office of Political Affairs

This is important legislation. Thanks for your help

WASH.POST:02-21-91

Hobart Rowen

Trade Fight At the Rio Grande

A bitter fight over President Bush's proposal for a free trade zone with Mexico is shaping up—with the outcome uncertain. Organized labor and Democratic liberals are leading the battle against the idea, fearful that low wages in Mexico will accelerate the relocation of American plants there, adding to unemployment here.

There's no doubt a free trade agreement with Mexico will wipe out some American jobs in the short run. The question is whether that will be outweighed by benefits—economic and political—to the United States of a larger and more advanced Mexican economy.

Bush has asked Congress to approve a so-called "fast track" process that would speed a deal with Mexico to completion. But Rep. John J. LaFalce (D-N.Y.) is opposing the "fast track" option, because it gives Congress no opportunity to modify the proposal.

The AFL-CIO has made defeat of a trade deal with Mexico its No. 1 legislative priority for 1991. Jeff Faux, president of the Economic Policy Institute, a labor-liberal think tank, charges that swift enactment of a pact with Mexico would threaten American industrial competitiveness and "undermine" the wages of American workers.

The conventional view among economists committed to "free" or "open" trade has been that low wages in the Third World are not a threat to the advanced nations because developed countries enjoy vastly superior productivity. But a new study for EPI by Walter Russell Mead contends that nations such as Mexico, Taiwan and Korea, have been able to couple high productivity with their sub-par pay scales, making them dangerous competitors.

Backers of a free trade zone with Mexico, nonetheless, fervently believe that an American failure to help our third biggest trading partner develop a more dynamic economy would be as shortsighted for the United States as it would be for Western Europe to fail to rebuild Eastern Europe.

"It is in our best interest to take positive steps to reduce the exodus from Mexico of its most ambitious people," according to Susan Walsh Sanderson and Robert H. Hayes in a recent edition of the Harvard Business Review. "Mexicans cross the border to the United States, often illegally, because U.S. companies need them to work at jobs that many American workers continue to shun and because at present, Mexican companies cannot employ them."

Opponents of a U.S.-Mexico FTA insist there are too many disparities in income and culture between the two countries to try to put them on an even footing. Not only are Mexican pay scales a fraction of American wages, but working conditions, fringe benefits, workers' rights and environmental constraints on industry are not in the same ballpark.

These inequities have already induced many American companies to establish assembly plants near the American border, known as *maquiladora*. These wholly owned U.S. facilities, sanctioned by special Mexican legislation, export finished goods back to the United States, and only the value added by cheap Mexican labor gets hit by tariffs.

However, Mexican Secretary of Commerce Jaime Serra Puche argues if it were not for the availability of cheap labor in the *maquiladora*, the American companies that settled there—unable to compete in the States—would have left North America entirely. "Most importantly, this has not resulted in a net loss of jobs for the American economy: it is estimated that for every job created in Mexico's *maquiladora* industry, there is at least another one created in the U.S.," he said.

Essentially, that's where Sanderson and Hayes come down: Mexico has been undergoing a transformation to a true market economy emphasizing quality output; it graduates more engineers per capita than does the United States. They believe it could be an enormous regional resource for the United States, which instead of welcoming the opportunity, "has erected something like a Berlin Wall to ward off Mexicans."

If we don't move in, say Sanderson and Hayes, others will. Originally, the *maquiladora* zone was dominated by U.S. companies such as Zenith and RCA. But now, Matsushita, Sony, Sanyo, Toshiba and Samsung are also there.

The free trade zone proposal raises complicated issues and deserves thorough debate in Congress. The International Trade Commission concludes that the United States would earn only small benefits from an FTA in the immediate years ahead, but that Mexico's economic growth would be stimulated, enabling it to become a better customer for American goods.

On the other hand, the dangers of low wages in an increasingly deregulated global economy, as cited by Mead, cannot be ignored. Congress should insist that improved working conditions, care for human rights and stricter environmental standards be written into any agreement with Mexico.

The Heritage Foundation Backgrounder

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March 22, 1991

REFUTING SIX MYTHS ABOUT THE U.S.-MEXICO FREE TRADE ACCORD

INTRODUCTION

The United States, Mexico, and Canada are planning to negotiate a Free Trade Agreement (FTA) that will greatly strengthen their economic and political ties. An FTA would remove such barriers to trade as tariffs and quotas and, by eliminating or weakening laws that restrict foreign investment, would make it easier for the U.S. to invest North and South of its borders.

A North American FTA will offer Americans cheaper goods, increase U.S. exports to Mexico, and make U.S. exports more affordable to the rest of the world. It also will create jobs for Americans, reduce illegal immigration from Mexico, help fight drug trafficking in Mexico, and serve as a model for similar agreements with other Latin American countries.

Something as nearly universally beneficial as the FTA should have little opposition. Yet the proposed agreement is attacked by the leaders of organized labor and environmental groups and by privileged industries like textiles that have enjoyed special government favors to protect them from foreign competition. These groups distort the facts about an FTA and are trying to spawn myths that the trade accord would harm America and Mexico. If Congress believes these myths, it could vote against the FTA with Mexico. This would impair U.S. global competitiveness, destroy American jobs, raise prices, lower the quality of U.S. products, and restrict choices for American consumers.

Economic Muscle. An FTA with Mexico is particularly important to the U.S. because, except for the Soviet Union, Mexico directly affects America's welfare more than any other country. The U.S. shares a 1,933-mile border with Mexico and is home to over 18 million Mexican-Americans. U.S. trade with Mexico has tripled since 1986; in 1990, the U.S. sold $28.4 billion of goods and services to Mexico and bought $30.2 billion from Mexico, for a total trade of $58.6 billion.

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

Free trade will boost the U.S.-Mexican exchange of commerce vastly. Perhaps even more important, by including Canada, an FTA will forge a great North American trading zone 25 percent larger in gross domestic product than the European Community and thus give North America enough muscle to challenge the emerging unified market in Europe and a Japan-dominated East Asian market.

In sum: A North America FTA is America's best bet for maintaining its long-term world economic leadership.

The first steps towards the U.S.-Mexico FTA were taken last year when the two countries announced plans to create a free trade area. Then Canada, this February 6, announced that it wanted to be included in the negotiations between Mexico and the U.S. The U.S. and Canada already have signed their own FTA, which began taking effect in 1989. Formal trilateral negotiations are scheduled to begin this June. The three governments expect to sign an FTA by December and present it to their respective national legislatures for ratification by next spring.

The main obstacle to this is the web of myths being spun by the special interests opposed to an FTA. Such myths include:

Myth # 1: Millions of U.S. workers will lose jobs because they cannot compete with cheap Mexican goods. Untrue. An FTA with Mexico will create, not lose, jobs for Americans. A U.S.-Mexico FTA may cost some jobs in some sectors of such labor-intensive industries as manufacturing and horticulture. But these potential losses will be offset substantially as increases in U.S. exports to Mexico add new jobs for Americans in such industries as capital equipment, high technology, and capital-intensive agriculture, and food processing.

Myth # 2: U.S. businesses investing in Mexico as a result of an FTA will be taking away the capital needed to expand U.S. industries and make them more internationally competitive. Untrue. U.S. capital flowing to Mexico will help American businesses grow because they will become more competitive against not only Pacific Rim nations like Japan, Korea, and the Republic of China on Taiwan, but against the European Community as well. The reason: U.S. companies will be able to combine the technology and highly skilled labor of America with Mexico's cheap labor and resources to cut the prices of their products in the global market. The amount of capital available to U.S. companies will grow as global demand for their products increases and their operations expand.

Myth # 3: Mexico will not be a large market for U.S. goods because most Mexicans cannot afford them. Untrue. Mexican incomes will rise with the economic growth triggered by an FTA. Mexicans then will be able to buy more U.S. goods, which today account for two-thirds of Mexican imports. Indeed, roughly 20 million Mexicans already can afford to buy U.S. goods.

Myth # 4: With an FTA, U.S. companies will move to Mexico to avoid strict U.S. environmental and labor safety standards, causing the loss of American jobs. Untrue. U.S. and Mexican environmental and safety standards are roughly

equal. U.S. companies are moving to Mexico primarily to take advantage of lower labor costs.

Myth # 5: An FTA would undermine human rights in Mexico because the treaty would strengthen the authoritarian central government. Untrue. An FTA will move Mexico toward a stronger democracy and social stability by providing the majority of Mexicans with jobs in industries not controlled by the government. The world has learned that economic freedoms and political freedoms are closely related. Democracy has not flourished in Mexico in part because the central government systematically has denied its citizens economic power independent of the state. Under the pressures of the international free trade to be unleashed by an FTA, state control of the economy will decrease as private industries grow. As economic freedoms grow, so too will political freedoms.

Myth # 6: An FTA with Mexico would increase the flow of illegal immigrants into America. Untrue. The economic growth stimulated by an FTA will encourage Mexicans to stay home where jobs are being created. Lack of an FTA, by contrast, keeps the Mexican economy weak, prompting great numbers of Mexicans to head north in search of work.

The U.S. Congress should not be fooled by the myths fabricated by the FTA's opponents. If the FTA is not approved by Congress, U.S.-Mexico trade would grow slowly at best, inhibited by Mexican tariff laws and investment barriers. Without an FTA, the U.S. would lose a potential 80 million-person export market for its goods, and face no prospect of halting or even slowing the influx of illegal immigration of Mexicans into the U.S.

SIX MYTHS ABOUT FREE TRADE WITH MEXICO

Myth # 1: Millions of U.S. workers will lose jobs because they cannot compete with cheap Mexican goods.

Some leaders of organized labor, environmental organizations, and heavily protected industries like textiles and steel claim that an FTA with Mexico would allow cheap Mexican labor to take away American jobs. In fact, cheap labor from underdeveloped countries not only can strengthen the American economy, but will produce more U.S. jobs. Most U.S. jobs today are created in high technology industries, like computer sciences, aviation, and medicine. This has been possible because since World War II the U.S. has allowed Third World countries to sell cheap, labor-intensive products to U.S. consumers, freeing up U.S. capital for investment in high technology industries.

While Mexicans mainly are semi-skilled and unskilled workers in agriculture, light manufacturing, and electronics assembly plants, the U.S. work force is made

up largely of semi-skilled and highly skilled workers in high technology and services industries. The average hourly rate for manufacturing jobs today is $1.90 per hour in Mexico compared to $14.50 per hour in the U.S.[1] Because of this difference in wages, Mexican companies will be able to compete directly with U.S. companies that employ highly paid, unskilled and semi-skilled labor once tariffs, quotas, and investment barriers are eliminated. America should welcome this competition. It will force inefficient U.S. industries to invest in more high technology and services industries, like telecommunications, aerospace, and computers. Since U.S. companies are most competitive in high-technology and services industries anyway, the economic incentives created by the FTA will boost the very industries that are creating most of the jobs for Americans.[2] To be sure, competition from some low-cost labor companies in Mexico may harm some U.S. labor-intensive companies in the horticulture, textiles, and a few other industries and some of those that assemble electronic and automotive components.

Boosting Competitiveness. Charles Vanik, Counselor for the free-trade group Coalition for North American Trade and Investment, has described how a U.S.-Mexico FTA would create jobs and boost competitiveness in high-technology industries. He told the Subcommittee on Trade of the House Ways and Means Committee on June 28, 1990:

> The key to an abundance of high-wage jobs is to maintain technological leadership, develop the best-educated workforce, and invest worldwide to stay competitive. The true source of job security is a profit-making firm. A firm that's making profits can accumulate capital and make the investments needed to sustain the more productive, better paying, high-skilled jobs that yield a rising standard of living.[3]

Vanik correctly suggests that America's competitiveness is in developing industries that employ skilled labor. The U.S. economy created close to 20 million new jobs in the 1980s, mostly in such skilled-labor industries as banking, capital equipment manufacturing, computer technology, insurance, transportation, and telecommunications. High technology and services-related jobs now account for 76 percent of the U.S. labor force.[4] According to Department of Labor studies,

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1 Rudiger Dornbusch, "It's Time to Open Up Trade with Mexico," *Challenge*, November-December 1990, pp. 52-55.

2 United States International Trade Commission, "The Likely Impact on the United States of a Free Trade Agreement with Mexico," Investigation No. 2353, February 1991, p. 2-1.

3 Testimony of Charles A. Vanik, Counsel for North American Trade and Investment, to the Subcommittee on Trade, House Committee on Ways and Means, June 28, 1990, p. 2.

4 Lois M. Plunkert, "The 1980's: A decade of job growth and industry shifts," *Monthly Labor Review*, September 1990, p. 3.

the fastest growing job sectors during this decade will be in computer technology and services, which will account for 16 million of the estimated 20 million in new jobs by the year 2000.[5] These industries will benefit most from an FTA. The reason: Mexico does not have a developed high technology industry that can compete with America, and as Mexico grows economically it will need many of the services U.S. high technology industries can provide. American firms, in turn, will benefit as Mexican companies import U.S. computers, telecommunication equipment, and other advanced technology products and services.

Benefits to Labor. While the gains in high technology service jobs will help the U.S. economy, the loss of some jobs in labor-intensive industries will not greatly harm it. According to the Department of Labor, manufacturing, the sector most protected by U.S. tariffs and quotas, accounts for only 23 percent of America's gross national product, and employs only 18 percent of the U.S. labor force.[6] The great majority of the U.S. labor force thus is unprotected and will benefit from an FTA.

The experience of the 1980s teaches that protecting industries not only harms the economy, but ends up losing jobs for those industries. For example, steel quotas in the 1980s raised the price of domestic steel and made U.S. steel products more expensive at home and abroad. Since U.S. manufacturers that use steel could not buy cheap raw steel from abroad, their end products were costlier than those made by foreign competitors who could buy the cheap steel. The result: The U.S. manufacturers lost sales and then some 52,400 jobs were lost in U.S. steel-related industries.[7]

Some of the poorest American workers in the U.S., like those in food services and custodial jobs, will not be harmed by an FTA, as some critics fear. There will not be a mass flow of Mexican immigrants into the U.S. once an FTA is underway. Increased trade under an FTA will improve Mexico's economy, encouraging many Mexicans to seek work at home instead of in the U.S. If more Mexicans stay home to take advantage of new opportunities caused by economic growth, more jobs will be available for Americans in food services, construction, and custodial jobs.

Myth # 2: U.S. businesses investing in Mexico as a result of an FTA will be taking away the capital needed to expand U.S. industries and make them more internationally competitive.

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5 George Silvestri and John Lukasiewicz, "Projections of occupational employment, 1988-2000," *Monthly Labor Review*, November 1989, p. 51.

6 Plunkert, *op. cit.* p. 14.

7 Arthur T. Denzau, "Can Trade Protection Save Jobs?" Center for the Study of American Business, April 1987, p. 5.

Critics of an FTA with Mexico often charge that free trade will drain America of badly needed capital. Organizations like the AFL-CIO point to the experience of the *maquiladora* program. Under this program U.S. companies send components, like electronic and automotive parts, to assembly plants in Mexico. The finished product is then sold in the U. S. Labor groups argue that U.S. capital going to these industries prevents American companies from expanding their operations.

To be sure, an FTA would cause a dramatic increase in U.S. investment in Mexico, currently valued at $7.1 billion, by eliminating Mexican laws that limit foreign ownership in Mexican industries.[8] An FTA, for instance, likely will require the Mexican government to allow not only American banks access to Mexican financial markets, but more American investment in petrochemical industries.

However, this U.S. investment in Mexico will not mean a cutback in U.S. industrial growth. Contrary to arguments of organized labor, U.S. companies do not have a fixed amount of capital. Capital is attracted to companies that are competitive. If U.S. companies invest in Mexico by moving part of their operations there they will be able to produce more globally competitive products by combining low-cost labor with high-technology U.S. labor. This competitive edge will allow them to expand their operations in the U.S.

Creating Jobs. One sign of expanded operations is the creation of new jobs. For example, U.S. companies criticized by the AFL-CIO for investing in the *maquiladora* program have expanded industries and created jobs in America. Since the 1960s the *maquiladora* program has created 100,000 American jobs in direct export-related industries as these industries expanded their operations. Even in non-border states like Illinois and Michigan jobs have been created in the manufacture of components such as automobile parts that are then shipped to Mexico for assembly.

Several hundred thousand more jobs in export support industries like food services, real estate, transportation, and warehousing have been created in the border states of Arizona, California, New Mexico, and Texas, where trade has increased dramatically because U.S. companies invested in plants in Mexico.

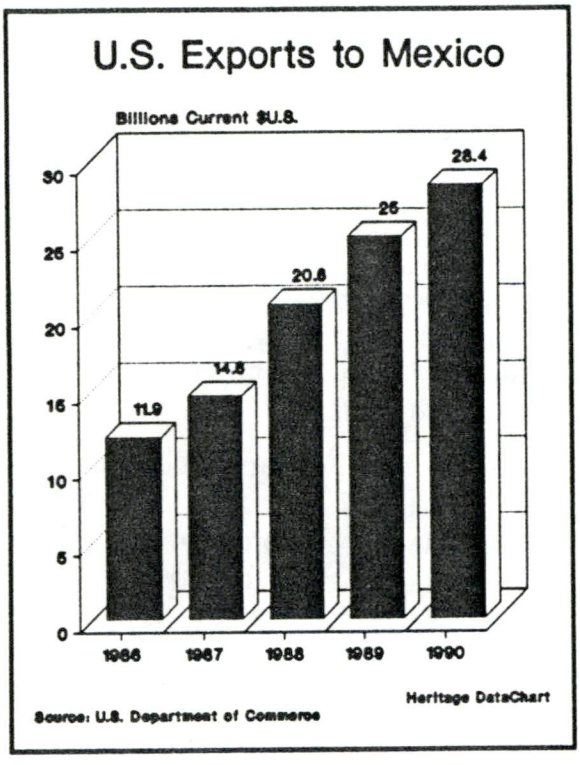
FTA opponents seem not to realize that U.S. companies prevented from investing in Mexico will do so in distant Third World countries. This has an effect quite different from investing in Mexico. When American companies transfer part of their operations to Mexico, most of their work force stays in the U.S., particularly in administration, sales, warehousing, capital equipment and components manufacturing, and management. By contrast, when U.S. industries locate their operations in distant Asia or Europe, the U.S. firms typically do not supply their

8 U.S. International Trade Commission, *op. cit.*, p. 1-7

subsidiaries with capital equipment, warehousing, and administration personnel. This is usually done by foreign companies closer to the factories. Without a U.S.-Mexico FTA, Mexican laws that restrict U.S. investment in Mexico will stay in force. Thus U.S. companies seeking cheaper labor will invest further from home and American jobs will be lost as entire operations, and not just part of them, are moved abroad.

Myth # 3: Mexico will not be a large market for U.S. goods because most Mexicans cannot afford them.

FTA critics argue that American firms will not benefit from an FTA because the income of most Mexicans is too low to buy relatively expensive American products. They cite the fact that per capita income in Mexico today is roughly $2,032 compared to $16,709 for America. The discrepancy in income is so great, they argue, that U.S. export industries will find inadequate purchasing power in Mexico and thus little market for their goods.



Increased Imports. FTA critics who see Mexico's low per capita income hindering U.S. exports fail to recognize other factors that make Mexico a good U.S. export market. Removing Mexican trade barriers like quotas, tariffs, and investment restrictions can greatly increase U.S. exports to Mexico. For instance, in spite of Mexico's low per capita income, U.S. exports to Mexico have increased dramatically beginning in 1986 because the Mexican government has lowered tariffs and quotas since that year. Mexico in 1988 passed Germany to become America's third largest trading partner (after Canada, the largest trading partner, and Japan). U.S.-Mexico trade reached $58.6 billion in 1990.

U.S. exports to Mexico have grown during the past five years without any increase in per capita

GNP in Mexico. This increase in exports has meant more jobs for U.S. export industries. The Department of Commerce estimates that for every $1 billion increase in U.S. exports, 22,800 jobs are created in the U.S.[9] From 1986 to 1989 over 300,000 jobs were created in the U.S. export industries because of the increase in exports to Mexico. The value of U.S. exports to Mexico in this period grew from $10 billion in 1986 to $28.4 billion in 1989.

Another factor overlooked by FTA opponents is that Mexican per capita income will increase because of the economic growth spurred by an FTA. As their incomes increase, Mexicans will buy more U.S. goods. Trade between the U.S. and underdeveloped countries since World War II demonstrates how, as an underdeveloped nation's per capita income rises, it imports more goods. Japan had a per capita income of $960 in 1960 and imported only $4 billion in goods. In 1989 Japan's income was $22,800 per capita and it imported $209 billion in goods and services, $43 billion of which came from the U.S.[10] Taiwan now buys $11 billion in imports from the U.S., and South Korea purchases $13 billion of U.S. goods. These countries bought practically nothing from the U.S. two decades ago, when they were as underdeveloped as Mexico now is. An FTA will help raise Mexican per capita GNP so that it too can buy more imports.

Benefits of Proximity. Another factor FTA opponents overlook is that Mexico's proximity to the U.S. has helped U.S. export industries in the past and will help them even more under an FTA. Today Mexico buys over two-thirds of its capital equipment from the U.S. An FTA would strengthen this export trend because American industries would supply most of the capital equipment and investment for the modernization of Mexico's factories, highways, and telecommunications systems. In contrast, Asia and Europe bought very little U.S. capital equipment during their economic growth. Asian and European, not U.S. companies, over the past thirty years supplied most of the capital equipment, investment, and technology for industries in Asia and Europe.

As Mexican per capita income rises, Mexicans will buy a much larger percentage of their consumer goods from the U.S. than do Asian and European countries. American product name recognition is extremely high in Mexico. Some 65 percent of Mexico's imports already come from the U.S., and experience teaches that this figure surely will rise under an FTA. For example, as tariffs and quotas for many goods such as cars, clothing, and food were eliminated in Mexico during the past three years, Mexicans doubled their imports of U.S. goods.

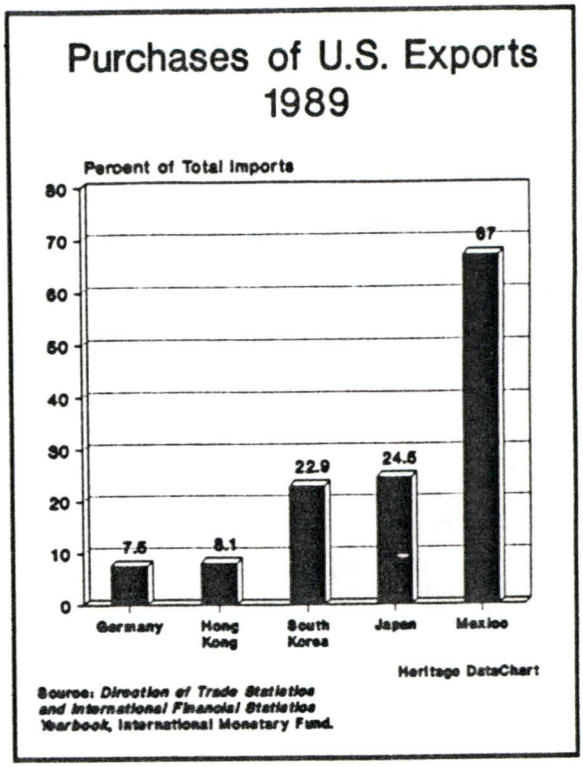
In contrast, Hong Kong buys only 8.1 percent of its imports from the U.S., Japan buys 22.9 percent, and Germany only 7.5 percent. Hong Kong has increased its exports to the U.S. by $14 billion since 1979, but has increased its im-

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9 Lester A. Davis, "Contribution of Exports to U.S. Employment, 1980-1987," U.S. Department of Commerce, International Trade Administration, March 1989, p. 6.

10 International Monetary Fund, International Financial Statistics Yearbook, IMF 1990.

ports from the U.S. by only $4 billion during the same period. As these countries grew they relied on countries closer to their border for most of their imports, which meant that U.S. export industries did not win the new contracts and thus did not create new jobs. This will not happen in Mexico because of its proximity to the U.S., and Mexico thus naturally will turn to American goods and services to modernize its economy.



Another important reason why U.S. export industries would benefit is that an FTA would eliminate a host of specific restrictions on U.S. exports. With these restrictions removed, U.S. goods would be cheaper than they are now to Mexicans, who then could buy more U.S. goods. An FTA, for example, would require that Mexico eliminate the licensing fees that U.S. firms now pay to sell their products in Mexico. Special import licensing restrictions in Mexico, it is estimated, now reduce U.S. sales in Mexico by 20 percent. An FTA also would end laws mandating that goods sold in Mexico, like automobiles, be made from Mexican parts. The majority of U.S. exports to Mexico are in motor vehicle parts, telecommunications equipment, electronic components, processed foods, and basic grains, which today suffer from quotas and 10 percent to 20 percent tariffs. The reduction of these barriers under an FTA would make these products cheaper and more accessible to an already growing Mexican consumer market.

Myth # 4: With an FTA, U.S. companies will move to Mexico to avoid strict U.S. environmental and labor safety standards, causing the loss of American jobs.

Groups like the AFL-CIO and the National Wildlife Federation fear that lax environmental and labor safety standards in Mexico give companies based there an unfair advantage over U.S.-based firms, which must meet tougher standards. Environmental and labor safety regulations in America raise the costs to U.S. companies of producing goods and services. Labor groups argue that since American companies will not be able to compete against their counterparts in Mexico, they will move to Mexico to lower their operation and production costs.

Similar Environmental Laws. These fears are exaggerated. Mexican environmental and labor safety laws are roughly equal to those in the U.S. Before toxic wastes can be transferred across the border, for example, both Mexican and U.S. laws require a 45 day notification to the receiving country, identification of the toxic waste being transferred, and the destination of the toxic waste. Mexican environmental regulations require any company working within 62 miles of the border to comply with all U.S. federal Environmental Protection Agency (EPA) standards. Mexico's environmental protection agency, the Mexican Secretariat of Urban Development and Ecology (SEDUE), has even more power than does the EPA. SEDUE can shut factories immediately for violating environmental and safety regulations; the EPA cannot.

An EPA and SEDUE task force, meanwhile, since September 1989 has been designing ways to police environmental problems in the border region. In this program EPA and SEDUE officials train each other on enforcement methods during plant inspections in both countries. According to EPA officials working on the SEDUE/EPA project, SEDUE enforcement is comparable to the EPA's.[11] Example: SEDUE last year temporarily closed several U.S. businesses in Tijuana, Mexico, that violated SEDUE environmental and safety standards. One unnamed U.S. company operating in the Ciudad Juarez, Mexico, was fined $70,000 for noncompliance of a SEDUE regulation.[12]

Where environmental enforcement problems along the U.S.-Mexico border do exist it is because the SEDUE program is so new, not because of Mexico's lack of commitment to enforcing environmental laws. Many Mexican industrial cities, for instance, do not have enough environmental inspectors. Still, environmental and labor safety enforcement in Mexico has improved under the government of President Carlos Salinas de Gortari. He has said, "along the border, we are introducing strict penalties for polluting companies. In this, we are acting decisively."[13] To prove this, Salinas boosted the SEDUE budget 200 percent from last year to this year. SEDUE has plans, moreover, to add 50 to 150 inspectors in industrial cities like Guadalajara, Mexico City, Monterrey, and Tijuana. This continuing improvement in environmental and labor safety enforcement reduces the incentives for American companies to move to Mexico to escape U.S. standards.

Myth # 5: An FTA would undermine human rights in Mexico because the treaty would strengthen the authoritarian central government.

Critics charge that an FTA with Mexico would strengthen a governmental system with a history of electoral fraud, police brutality, and corruption. Human rights organizations such as Amnesty International, Freedom House, and

11 Telephone interviews with officials of U.S. Environmental Protection Agency.

12 Telephone interview with Ron Pettis, Chairman of the Environmental Working Group of the Border Trade Alliance, December 3, 1990.

13 "A New Hope for the Hemisphere?" *New Perspectives Quarterly*, Vol. 8, Winter 1991.

Americas Watch, as well as several Mexican political opposition groups such as the *Partido Accion Nacional* (PAN) and the *Partido Revolucionario Democratico* (PRD), have reported a history of civil and human rights violations by Mexico's government.

These groups and reports by and large are correct in their complaint about the non-democratic characteristics of Mexico's political system. This has begun to change since Salinas took office in December 1988.

Salinas Reforms. He has launched a dramatic economic and political reform campaign. He has arrested drug traffickers and corrupt union leaders and has begun reforming the Mexican bureaucracy, prosecuting officials for taking bribes and retraining anti-narcotics police units to ferret out corruption. He also has backed changes to make the electoral laws more democratic. No longer will officials from Salinas's ruling Institutional Revolutionary Party (PRI) be able easily to stuff ballot boxes. The new electoral code, which will takes effect before the federal elections in August 1991, allows any opposition party access to the registry to check its accuracy.

An FTA will accelerate these democratic changes by boosting free market reforms. Already, the planned privatization of the government owned paper company *Productora e Importadora de Papel S.A.* (PIPSA) and the lifting last April of government control over the sale of newsprint has made the press more independent from the government. Now the government no longer can intimidate the press, as it has since the 1930s, by withholding newsprint. The result: a much more open and critical press. Now *El Norte*, a daily newspaper in Monterrey, and such publications as *MIRA*, *Proceso*, and *Jornada* routinely criticize Salinas and his government.

Toward Greater Democracy. Free market and political reforms in Mexico since 1986 have strengthened and supported the progress of each other. One American trade negotiator, who wished to remain anonymous, explained how an FTA would guarantee faster movement toward democracy.

> Mexico has the form of democracy but not the substance.... Mexico might not be a functioning democracy in the Western tradition, but it is not a brutal military country either.... Political freedom and economic freedom go hand in hand. Rising expectations [in Mexico] will create demands for change by creating a system that fosters change.[14]

An FTA will put tremendous pressure on the government to allow the underground economy to operate legally. The reason: An FTA will open the Mexican

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(14) United States International Trade Commission, "Phase II: Summary of Views on Prospects for Future United States-Mexican Relations," Investigation No.332-282, October 1990, p. 1-4.

economy to international competition. To survive in an increasingly competitive international market, Mexican businesses will pressure the government to simplify tax laws, reduce excessive regulation, and make credit more easily available through the marketplace. This in turn will encourage the so called "informal sector" to seek legal status. An estimated 30 percent of Mexico's gross domestic product is produced by small and medium businesses that work in the "informal sector" – a part of the economy that operates outside the law to avoid the severe bureaucratic restrictions, regulations, and taxes that exclude it from the mainstream economy. This informal sector, combined with small and medium businesses in the formal sector, account for 80 percent of Mexico's work force.

Growth in the informal sector and among small to medium sized businesses will enrich the middle class. The middle class in Mexico has been politically powerless because it has had little economic independence from the state. Middle class economic success will create a foundation upon which a true democratic system can stand, in the same way a large middle class formed the foundation for a strong democratic system in the U.S.

Myth # 6: An FTA with Mexico would increase the flow of illegal immigrants into America.

The AFL-CIO argues that an FTA will increase illegal immigration to the U.S. Labor union officials say that under an FTA, jobs along the Mexican border will increase as new industries locate to border regions. This would prompt Mexicans to move to border regions from the interior of Mexico, and make it easier for them to migrate illegally to the U.S. Union officials also believe that the rise in Mexican per capita income will enable many more Mexicans to make the costly illegal migration to the U.S.[15]

An FTA will not increase illegal immigration to the U.S. By boosting jobs and per capita incomes in Mexico, an FTA will remove the incentive for Mexicans to leave home and migrate to the U.S. in search of jobs. The root cause of illegal immigration to the U.S. is the failing Mexican economy. Illegal immigration across the border from Mexico increased from 345,353 in 1970 to 1,046,420 in 1990. Last year the U.S. Immigration and Naturalization Service (INS) apprehended 1 million immigrants at the border, a 20 percent increase from 1988. The INS estimates that 85 percent to 90 percent of illegal immigrants crossing the border are Mexicans. During the past two decades Mexicans' per capita income has dropped an estimated 40 percent. The Immigration Reform Control Act (IRCA) of 1986, by placing penalties on U.S. companies that hired undocumented workers, only temporarily slowed illegal immigration. This immigration is once again increasing – because of Mexico's deteriorating economy, especially in rural areas.

15 Contrary to popular belief, it is not the very poorest Mexicans that immigrate, but those who can afford passage across the border.

The Bush and Salinas administrations understand that the only way to reduce the illegal flow of labor from Mexico to the U.S. is to improve economic and social conditions in Mexico. Salinas stated in an interview with *New Perspectives Quarterly* in January that through economic growth "Mexicans would be able to find jobs in Mexico and wouldn't have to look for them in the United States."[16]

CONCLUSION

It is in America's strategic and geopolitical interests to enter into a Free Trade Agreement with Mexico. Political and economic instability in Mexico would increase illegal immigration and drug trafficking and decrease trade. This would directly affect the well-being of Americans. FTA opponents such as labor union officials, environmental groups, and government-protected manufacturing industries spread myths about the harm an FTA supposedly would cause both countries. These myths, if believed, could prompt Congress to defeat the FTA. This then would poison U.S.-Mexico relations, cost jobs in both countries, and decrease America's global competitiveness.

These myths fail to withstand scrutiny and analysis. Critics say, for example, that millions of U.S. workers would lose jobs because they could not compete with cheap Mexican goods. To be sure, an FTA will make consumer goods cheaper for Americans, but there will not be a net loss of U.S. jobs. An FTA will create more U.S. jobs as U.S. companies use skilled American workers to produce high-technology components and unskilled Mexican laborers to assemble products that are globally competitive.

Creating More U.S. Jobs. FTA opponents argue that U.S. capital needed to build industry at home will flow to Mexico. True, Americans will invest in Mexico. But economic growth in Mexico will create a demand for capital goods that will be mainly supplied by U.S. companies. This means more jobs in U.S. industries that produce machinery, telecommunications, computers, and other capital equipment.

Environmental groups charge that an FTA will make it easier for U.S. companies to move their operations to Mexico to avoid strict U.S. environmental and safety standards. Yet Mexican environmental and safety laws are similar to those in the U.S. These laws thus will play only a small role in the decisions of American companies to move their operations to Mexico.

FTA opponents complain that an FTA will increase the flow of illegal immigrants into the U.S., and strengthen a government system in Mexico which has a history of electoral fraud, police brutality, and corruption. But an FTA will do the opposite. It would stem the flood of illegal immigrants coming across the bor-

16 "A New Hope for the Hemisphere?", *op. cit.*

der because it would give Mexicans work in Mexico. And it would serve the causes of human rights and democracy by advancing those economic rights and freedoms which are the foundation of political freedom.

Compelling Case. Except for the Soviet Union, no other country so directly affects the welfare and security of America as does Mexico. An FTA would bind America and Mexico in a common future. A U.S. FTA with Mexico offers both countries great advantages. In contrast, problems between the two countries would grow if free trade between them is not established. For the U.S., the case is irresistibly compelling for the FTA with Mexico.

Wesley Smith
Policy Analyst

Mike Wilson -

Heritage
USTR
~~Wilson~~
~~Canada Free Trade - how long to neg?~~

Why so bad if doesn't go thru? no one will negotiate not part. fast
What does it do for Mex?
How refute major arguments contra fast-track?

Heritage Foundation research intern Bruno Stagno contributed to this study.

All Heritage Foundation papers are now available electronically to suscribers of the "Nexis" on-line data retrieval service. The Heritage Foundation Reports (HFRPTS) can be found in the OMNI,CURRNT, NWLTRS, and GVT group files of the NEXIS library and in the GOVT and OMNI group files of the GOVNWS library.

WALL ST.J.:01-04-91

53/189/182/172

Put Free-Trade Talks on the Fast Track

President Bush's Enterprise for the Americas initiative was hailed during his five-nation swing through Latin America as the most comprehensive policy since John Kennedy's Alliance for Progress. The centerpiece of the policy is a call for hemispheric free trade from Point Barrow, Alaska, to Tierra del Fuego, Argentina, beginning with Mexico. However, the visionary policy may yet face political battles in capitals on both sides of the border.

As the U.S. enters a recession, Congress may be less generous with market access.

The Americas

By M. Delal Baer

In addition, noneconomic issues could distort what should be an economically grounded debate on the merits of hemispheric free trade. Thus, Colombian President Cesar Gaviria, who is negotiating the surrender of drug lords with promises of non-extradition to U.S. courts, could find Americans less eager to buy Colombian flowers. In Mexico, flawed elections and environmental concerns are foils in the hands of protectionists.

The most serious form of opposition could come in the form of an assault on "fast-track" authority. The fast-track rules of the 1988 Omnibus Trade Bill permit President Bush to negotiate trade agreements and submit them for ratification without possibility of congressional modification. The president requested fast-track authority to negotiate a free-trade agreement (FTA) with Mexico in September. By December, 37 congressmen had signed a letter expressing reservations about granting fast track for Mexico citing drugs, human rights, environmental standards and wage differentials. While some congressmen's concerns about democracy and the environment are sincere, for others these are a smoke screen for protectionism.

Efforts to derail fast track have been seconded by some Mexican intellectuals who philosophically oppose President Carlos Salinas de Gortari's program of privatization, trade liberalization and closer ties with the U.S. In a letter to the Mexican Congress that also has circulated on Capitol Hill, six prominent Mexicans—including novelist Carlos Fuentes and former Finance Minister Jesus Silva Herzog—recommended caution.

Free trade also could be tangled in the web of Mexico's partisan politics. Opposition figures are loath to see a trade agreement benefit Mr. Salinas politically and may seek to parlay U.S. discussions about fast track into a critique of Mexico's flawed electoral process. "We suggest that negotiations for an agreement be taken more slowly and not be subject to political calendars," says analyst Jorge Casteneda, known for his opposition to the Salinas administration and a co-signer of the Mexican letter.

Savvy Mexicans and skittish congressmen realize that a go-slow approach is tantamount to a no-go approach. A successful attack on fast track would be, as one Mexican official put it, "the kiss of death" for the U.S.-Mexico FTA and for the Enterprise for the Americas initiative. The Caribbean Basin Initiative is a case in point.

For want of fast track, Congress excluded from the CBI many industries meaningful to Caribbean economies, including sugar. As one observer with a Jamaican vantage point commented, "CBI was like trying to throw a party in Jamaica and suppressing the rum." Costa Ricans tell tales of woe about developing a cut-flower industry in anticipation of duty-free access under CBI, only to be cut off at the knees by U.S. lobbyists on Capitol Hill. Only fast-track authority can prevent a U.S.-Mexico FTA from being whittled away by special-interest pressures.

Part of the problem is that Latin Americans have never been effective when it comes to defending their interests in Washington. They tend to pin their hopes on the president and neglect Congress. Mexican officials wax eloquent about Camp David visits and sessions with Secretary of State James Baker, but these meetings will not solve trade problems on Capitol Hill.

The cost of a failure to implement the Bush policy would be high. For the first time in decades, Latin America is democratic and committed to sensible economic reform. Failure to achieve a more open trade environment could unseat friendly leaders, give succor to anti-Yankee populists, undermine new democracies and weaken cooperation on the anti-narcotics front. It also could jeopardize efforts to restructure Latin economies along free-market, export-oriented lines.

Nowhere are the dangers of a failure more evident than in Mexico. President Salinas has staked his political reputation and free-market reforms on an FTA. A cast of anti-gringo grudge bearers, socialist holdouts and drug lords waits in the wings to see if he fails. U.S. congressional meddling could pull the rug out from under Mr. Salinas and endanger Mexico's economic recovery, with direct consequences on the U.S. southern border. Moreover, failure in Mexico would echo throughout the hemisphere.

The U.S. Congress has long rejected military answers to Latin American problems, preferring to stress economic solutions. Fine. But you cannot support crop substitution to coca growers and refuse to import their flowers. You cannot cut the border patrol, but withhold opportunities to potential migrants in their own countries. It is up to those who have stressed the long-term economic policies to be finally as free with their markets as they have been with their mouths.

Ms. Baer is director of the Mexico Project at the Center for Strategic and International Studies in Washington.

WALL ST. J.:03-22-91

189/33 The Case for an *Internal* Mexican Free-Trade Agreement

The Americas

By Alejandro Junco

MONTERREY, Mexico – Optimistic consumers and free-market proponents here are expecting a lot from an eventual free-trading agreement (FTA) among the U.S., Canada and Mexico. According to the latest poll, taken by the new Mexican journal Este Pais, close to 80% of Mexicans favor a trade agreement among the three countries. There is widespread hope that as a result of a free-market trading system, open competition—traditionally not encouraged in Mexico—will become firmly entrenched in the domestic economy. Skeptics, however, warn that it's faster and easier to sign free-trade agreements externally than it is to develop a competitive market system internally.

The FTA will have an impact only on the part of the economy that is considered "tradable." But most economic assets of developing countries are in the category of "non-tradable" items. Pricing on these goods is outside the sphere of external competition. For example, agricultural products are considered tradable, but what makes them possible, the market for cultivable land, is not.

Much economic reform has taken place in Mexico since President Carlos Salinas de Gortari took office in December 1988. However, these have been limited primarily to edicts made by the executive branch of the government. In the nonexecutive branches, and in the private sector itself, there remain many obstacles to competition.

One such obstacle often overlooked by outsiders is Mexico's obsolete Napoleonic legal system. In the U.S., in the period between 1985 and 1989, there were more than 6,000 cases where one business charged another with monopoly or unfair business practices. In the same period in Mexico, there were none. This does not reflect a perfect market system in which all economic actors behave with impeccable business ethics. What it does reflect is the impossibility of receiving adequate or timely justice through the judiciary.

The monopoly laws of Mexico date back to a time when the government was more interested in intervening in the economy and in controlling markets than in ensuring equal opportunity. The 1934 law currently in use encourages price fixing and government intervention and discourages imports. In fact, as a starting point, the law states as prima facie: "being as it is more evident that states should intervene in the economy . . . and that the market cannot be left to the free play of individuals and that markets must be regulated to reach adequate levels of pricing. . . ." Furthermore, Article VI exempts a company from being accused of monopoly practices if the government owns stock in this company, whereas importing "disloyal" products *is* considered a monopoly practice.

As a result of this juridical obsolescence, market distortions and monopoly business practices in Mexico are the rule and not the exception.

In Boston, the Boston Herald had to sell a local TV station when the Federal Communications Commission brought charges that this would inhibit competition in the local market. This is typical of laws regulating U.S. media, where there may be diversification but not at the expense of cornering one particular marketplace.

By contrast, a Mexican media group operates the following in the Monterrey marketplace: two local television channels, 18 AM and FM radio stations, two daily newspapers, the cable system and 22 cinemas, and it controls 80% of the market for rental videos. It recently bought out the most important outdoor advertising firm.

In most Mexican markets competitive pricing is the result of either unilateral management policy or government controls such as *El Pacto*, a shock plan to freeze wages and prices that has been in effect since 1987. Pricing is not normally a decision reached by market forces.

Mexico's transportation sector offers an example of monopolistic pricing that certainly would be prosecuted under U.S. law. Despite substantial deregulation in the transportation sector recently, prices have remained artificially high. It costs more to ship domestically from Monterrey to Tampico, a distance of 200 miles, than from Tampico to Amsterdam, 4,000 miles. The reason: At a public meeting of the privately run shipping center, a gentlemen's agreement was reached to maintain high prices. After many years of state intervention in the economy and the obsolescence of the judiciary, the result has been monopolies or, at best, duopolies in most areas of the economy. And although privatization is under way, it mostly has meant transferring public monopolies to private ones.

Whether public or private, monopolies or duopolies in Mexico control the following: petroleum, electricity, telephone and data communication, television, bread, cement, steel, cookies, glass, railroads, beer, copper, baby food, education, and many other products and services.

The laws of the agricultural sector also restrict open, competitive forces. Under the current *ejido* system, the federal government is the sole owner of the majority of cultivable land. Use of this land is limited to peasant farmers who are organized into units more suited for political control than productivity.

But if you dared to file an anti-competitive-practices complaint against any one of these vestiges of a bygone era, your opponent could stall for several years before a judge would even look at the complaint. And besides enumerable time delays, the system encourages duplicity and inefficiencies.

For example, in 1989 a law was passed that forced companies to pay a 2% per annum tax on their assets above and beyond their ordinary profit taxes. Many felt the law was unconstitutional and made the argument in the Supreme Court. However, if they were to win, it would benefit only those that hired the lawyers and went to the expense of filing suit. Mexican law does not set precedent that benefits all citizens but rather only those who file suit. Thus, Mexican tribunals receive thousands of duplicate suits over one single matter and each one must await its turn.

Still, a lot has been gained in the past years. And at least government spokesmen today employ the right buzzword: competitiveness. This is a great improvement over the last one: self-sufficiency. In the name of "self-sufficiency" the Mexican border was sealed off as much as possible, and from the late 1960s to the mid-1980s the government planned, expropriated or controlled the economy to a strangulating degree. In 1983, at the peak of this interventionist period, the Mexican Constitution was amended to formalize central planning as the kingpin to achieve development. Mr. Salinas's effort to reach a free-trade agreement with the U.S. and Canada is his titanic gamble to induce prosperity through a market system, as opposed to what is called for in the Mexican Constitution.

But establishing competitive internal markets in a traditionally noncompetitive society is a far more complicated matter than just signing FTAs and privatizing state industries. In the long term, it is not enough that our products be allowed to compete freely; it is the societies that make those products that must be allowed to do so.

Mr. Junco is publisher of El Norte newspaper and president of InfoSel, an online financial-information service.

WESLEY SMITH

WASH.TIMES:03-25-91

Trade deal heading for derailment?

Reaching for the brakes

184/53

The protectionist drumbeat against a free trade agreement (FTA) with Mexico is growing louder on Capitol Hill.

Fearful of losing authority to negotiate a trade accord, the Bush administration recently told Congress it would offer a plan by May 1 to resolve questions over the impact on the American economy of a U.S.-Mexico FTA. The House and Senate are debating whether to grant the White House "fast-track" authority for the negotiations, which would prohibit Congress from amending a trade agreement once it is negotiated, forcing acceptance or rejection of the entire package. U.S. and Mexican officials agree that without fast-track authority, negotiations will never begin.

Congress should therefore take a harder look at the protectionist rhetoric used to attack the proposed free trade agreement. Among the many red herrings are these claims:

(1) Americans will lose hundreds of thousands of jobs when U.S. firms move to Mexico in search of low-cost workers. Rep. John LaFalce, New York Democrat, recently predicted the wage difference between workers in the two countries — $1.90 per hour on average in Mexico, $14.50 per hour in the United States — would dislocate American industries and workers "on a massive scale."

This zero-sum view of trade overlooks the dynamic effect freer trade with Mexico would have on U.S. export industries that can combine low-cost Mexican labor with U.S. high technology. This is exactly what Japan is doing in Singapore, Malaysia, the Philippines and communist China. Western Europe is beginning to forge similar arrangements in Poland, Czechoslovakia, Hungary and Germany.

And it is already happening here. U.S. companies have entered into joint ventures in Mexico since the 1960s. Under the maquiladora program, American businesses send components to assembly plants in Mexico, employ low-skilled Mexican labor, and sell the finished product in the United States. For example, in 1969 Rockwell International Corp. opened maquiladora operations in Mexico to assemble U.S.-made electronic components. Today, Rockwell produces a high-quality, low-cost FAX modem that has captured 65 percent of the Japanese market.

Thus, our choice is clear: integrate low-cost labor from countries such as Mexico into our production — like the rest of the industrialized world is doing — or raise barriers against those countries, and thereby abandon our position as the world's economic leader.

(2) Now is not the time for a trade agreement when recession is already hurting American jobs. On the contrary, with barriers to investment and trade in Mexico removed, the U.S. economy would receive an immediate boost in its export industries. Mexico needs to buy billions of dollars in construction equipment for its transportation system, computers and telecommunications products for its phone system, and capital equipment for its industrial sector.

What does this mean for American workers? For each additional billion dollars in exports, the Commerce Department estimates 22,000 American jobs are created. Since more than two-thirds of Mexico's imports already come from the United States, American industries that produce these goods and services will be the first beneficiaries of freer trade.

(3) The free flow of Mexican workers to the United States will displace millions of American workers. Both countries have emphatically stated that labor will not be a part of the trade accord, because the agreement only addresses goods and services, not people. Mexican President Carlos Salinas summarized it this way: "We want to export goods, not Mexicans." Providing jobs for Mexicans at home would actually have the opposite effect from what critics claim: It would reduce immigration, freeing up jobs for Americans.

The best way to ensure that Mexico prospers under a democratic, free-market economy is to link its future inextricably with ours. The strongest bond we can forge with Mexico today is an economic one. But with a single ill-conceived vote, Congress could derail attempts to create a free trade area from the Yucatan to the Yukon. By voting no on fast-track authority, Congress will have told a world finally anxious to accept free-market and free-trade principles that the United States no longer wants in on the game.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release March 19, 1991

EXTENSION OF FAST TRACK AUTHORITY

FACT SHEET

FAST TRACK PROCEDURES

Historical Background to the Fast Track

- For the better part of this century, the Congress and the Executive have recognized that the negotiation and implementation of trade agreements require special cooperation.

- In the aftermath of the record-high rates of the Smoot-Hawley Tariff Act of 1930 and the Depression they helped fuel, both the Congress and the Executive branch recognized that only by working closely together could the two branches effectively bring down barriers to our foreign trade and open international markets for U.S. products and services.

- This new partnership was reflected in the Reciprocal Trade Agreements Act of 1934, which gave the President authority not only to conclude tariff-cutting agreements but also to implement them without the need for subsequent legislation.

- As countries began to rely less on tariff protection and more on non-tariff trade barriers, the scope of trade negotiations broadened, and the "fast-track" procedures were created by the Congress as the necessary complement to this broader trade agenda.

- Fast track procedures for approval of trade agreements were included by the Congress in trade legislation in 1974, 1979, and again in the 1988 Trade Act.

Fast Track is Essential to Successful Trade Negotiations

- While assuring the Congress meaningful participation throughout the negotiation process, fast track provides two guarantees essential to the successful negotiation of trade agreements: (1) a vote on implementing legislation within a fixed period of time, and (2) no amendments to that legislation.

- These procedures reflect the understanding that trade agreements, in which results in one area are often linked to results in others, are particularly vulnerable to multiple amendments that, while possibly small in themselves, could unravel entire agreements.

- Whether the balance of benefits contained in any trade agreement is in the overall interest of the United States can only be determined by looking at the whole package.

- Through the fast track, the Congress gave the President the same bargaining power possessed by his counterparts: the ability to ensure that the agreement reached internationally would be the agreement voted on at home.

- Without fast track, the President cannot assure our negotiating partners that the deal they strike is the deal that will be voted on by the Congress.

- Without that assurance, foreign governments are reluctant to negotiate with the United States and will not make the tough concessions necessary to reach agreements the United States would be willing to sign. No trading partner will give its bottom line knowing that the bargain could be reopened.

- Using fast track, the United States has negotiated and implemented three remarkable agreements that were each approved by an overwhelming majority in both Houses of the Congress. These agreements -- the results of the Tokyo Round in 1979, the Free Trade Agreement with Israel in 1985, and the Free Trade Agreement with Canada in 1988 -- have reduced barriers to trade and contributed to growth in the United States and worldwide.

- The United States has much to gain from trade agreements that open markets and provide rules for free and fair trade. Maintaining the fast track will preserve our ability to continue our efforts to liberalize trade and open markets through the General Agreement on Tariffs and Trade, through other multilateral agreements and through bilateral agreements.

<u>The Congress is an Essential Part of the Fast Track Process</u>

- Fast track procedures preserve the role of the Congress during the negotiation, approval, and implementation of trade agreements.

- To ensure congressional and private sector input, the fast track statute contains extensive notification and consultation requirements. At each step along the way, from

initiation through implementation, the Congress is an active partner.

- To use the fast track for any agreement, bilateral or multilateral, the President must notify the Congress 90 calendar days before signature. By the time the President gives his 90-day notification, our many private sector advisory committees must report their views on the agreement both to the Congress and to the President. For bilateral agreements, the Congress must be given advance notice of the negotiations; during the following 60 legislative working days, either the Senate Finance or House Ways and Means Committee can vote to deny fast track treatment.

- Once an agreement is reached, the Congress and the Administration work in close consultation to formulate implementing legislation. The process has involved the full participation of all committees of jurisdiction, not only those committees traditionally consulted in setting trade negotiating objectives. If the agreement and its implementing legislation are still not acceptable, they can be rejected by a majority vote of either House.

- We are today engaged in bilateral and multilateral trade initiatives that hold unprecedented promise for the advancement of U.S. economic objectives. With such initiatives in train, it is clearly in the national interest to continue a partnership that has proved its worth for almost 60 years.

Use of Fast Track if Extended

- In incorporating the fast track in the 1988 Trade Act, the Congress expressly contemplated that an extension might be necessary and appropriate in order for the President to pursue effectively the trade policy goals set out in the law.

- If extended, the fast track would be available until June 1, 1993, and would be used to implement trade initiatives such as completing the Uruguay Round, negotiating a North America Free Trade Agreement (NAFTA) with Mexico and Canada, and pursuing the trade objectives of the Enterprise for the Americas Initiative.

- Supporting fast track will allow these important initiatives to go forward without in any way detracting from the ability of the Congress to assess each agreement on its merits when presented for approval.

A Vote Against Fast Track Denies Fast Track for all Agreements

- Current fast track authority would have expired on June 1 if the President had not requested an extension by March 1. The requested extension is granted automatically unless either house passes a statutorily prescribed disapproval resolution before June 1.

- The language of the disapproval resolution, which is set out in the statute, makes clear that disapproval eliminates all fast track authority, multilateral and bilateral.

- The disapproval resolution cannot be amended to eliminate fast track for some agreements but not others because the resolution itself cannot be amended. It is not possible, for example, to vote against the fast track for the Uruguay Round agreements but preserve it for the NAFTA.

- If a disapproval resolution is passed by either House, the fast track is gone for all purposes, and the President's ability to successfully negotiate any trade agreement requiring congressional approval, bilateral or multilateral, is severely crippled if not eliminated entirely.

- Simply put, a vote against fast track is a vote against trade.

Continuing Fast Track is Essential to Securing Economic Gains

- As the world's largest trader, the United States has an enormous stake in the future of the global trading system. Exports have become a vital source of strength to the U.S. economy. In 1990, the nearly 8.5 percent growth in U.S. exports accounted for 88 percent of U.S. economic growth.

- In order to sustain the expansion of exports and consequent growth, we must continue our efforts to open world markets. We must maintain our active leadership role. Without an extension of fast track, those efforts are futile.

- Maintaining fast track procedures -- and the partnership between the Congress and the executive branch that fast track represents -- will keep on course our joint efforts to liberalize trade and open markets through the GATT, through other multilateral agreements, and through bilateral agreements. No country stands more to gain from those efforts than the United States.

- As we approach the beginning of a new century, we should not hesitate to pursue the opportunities for expanded economic growth and prosperity presented by successful trade negotiations.

- In order to turn those opportunities into realities, the Congress and the Executive must continue to work together in the manner envisioned by the fast track.

THE IMPORTANCE AND BENEFITS OF THE URUGUAY ROUND

Uruguay Round is the Most Ambitious of Trade Negotiations to Date

- The world trading system is now vastly more complex than it was when the GATT was written in 1947. Over one-third of world trade, more than $1 trillion, is inadequately covered by international trade rules.

- The Uruguay Round negotiations -- in which 108 countries participate -- are an ambitious effort to strengthen and expand the global trading system as well as to further lower trade barriers. Launched in 1986 in Punta del Este, Uruguay, these negotiations are the eighth round of multilateral trade negotiations conducted under the auspices of GATT.

- The United States led the call for the far-reaching agenda of issues in the Uruguay Round. The Congress established objectives for the Uruguay Round in the Omnibus Trade and Competitiveness Act, passed in August of 1988.

- The negotiating agenda runs the gamut of U.S. interests, both in opening world markets and in establishing internal rules of fair play in areas vital to U.S. competitiveness -- services, investment, agriculture, and intellectual property. The negotiations fall into four broad categories:

  -- market access (tariffs and non-tariff measures, natural resource-based products, tropical products, and textiles);

  -- the "new" areas of services, trade-related intellectual property rights (TRIPs), and trade-related investment measures (TRIMs);

  -- agriculture; and

  -- GATT rules (dispute settlement, safeguards, GATT Articles including balance of payments reform, and the non-tariff measure codes, including subsidies and antidumping).

- Moreover, unlike previous GATT negotiating rounds, developing countries are active participants in every aspect of the negotiations.

The Administration is Committed to Ensuring that the Uruguay Round Results in Agreements that Truly Meet U.S. Objectives

- This resolve was demonstrated at Brussels in December 1990. The U.S. delegation and other important delegations determined that it was preferable to end the ministerial meeting without result rather than to lower ambitions and accept minimal Uruguay Round agreements.

- The negotiations formally resumed in all areas on February 26, 1991, when a framework to negotiate agricultural reform was reached. The exact pace of negotiations will depend on how quickly we are able to reach an acceptable solution on agriculture.

- The Administration is not prepared to accept an inadequate agreement for the sake of an agreement; but we are prepared to continue to negotiate to obtain a good result.

A Successful Uruguay Round Would Bring Substantial Benefits to the U.S. and World Economies

- Exports have become a vital source of strength to the U.S. economy. Since the Round was launched in 1986, export expansion has been responsible for 40 percent of total growth in U.S. GNP. In 1990, export growth accounted for 88 percent of U.S. GNP growth.

- An open multilateral trading system is the best guarantee that U.S. export opportunities continue to expand into the next century. The Uruguay Round is the most important initiative to expand these opportunities.

- Specifically, a successful Uruguay Round would provide substantial benefits to the U.S. economy, including:

  -- Lower tariff and non-tariff barriers to manufactured products and other goods, which could increase world output by $5 trillion and U.S. output by over $1 trillion over the next 10 years, meaning an additional $16, 000 for every American family of four;

  -- Rules to protect the intellectual property of U.S. entrepreneurs, who lose $60 billion annually through theft and counterfeiting of their ideas;

  -- New markets for U.S. services firms, which export $115 billion annually and generate 90 percent of new U.S. jobs;

-- An agreement opening world markets to investment, which helps generate $240 billion, or two-thirds of total U.S. exports in goods;

-- Fair competition and open markets in agriculture, creating new opportunities for American farmers, who lead the world with more than $40 billion in annual exports;

-- The full participation of developing countries in the global trading system, which could increase U.S. exports by $200 billion over the next 10 years; and

-- Strengthened rules on dispute settlement, antidumping, subsidies and trade remedy provisions, which should provide predictability and certainty in access to foreign markets and ensure fair trade at home.

o Conversely, failure to extend fast track authority will end the Uruguay Round negotiations, damaging prospects for world economic growth and cooperation.

o A collapse of the Round brought about by removal of U.S. fast track authority would increase worldwide pressures to raise trade and investment barriers. A sufficiently sharp movement away from open markets could contribute to a global recession, as it did in the 1930s.

o Although the ultimate success of the Uruguay Round cannot be guaranteed, the United States should continue negotiations because a successful Round is overwhelmingly in our long-term economic interests.

IMPORTANCE OF A NORTH AMERICAN FREE TRADE AGREEMENT

A NAFTA Would Create One of the World's Largest Free Trade Areas

o A NAFTA would create an enormous market, encompassing some 360 million consumers and total output of $6 trillion.

o The progressive elimination of barriers to the flow of goods, services, and investment and strengthened protection of intellectual property rights would benefit a broad spectrum of businesses, workers, farmers, and consumers.

o Creation of a NAFTA would be a catalyst for economic growth and development in the United States, Mexico and Canada through increased trade, investment, and jobs.

The Importance of North American Trade

- Canada and Mexico are America's first and third largest trading partners, respectively. In turn, the United States accounts for over two-thirds of their total trade. In 1990, three-way trade came to about $237 billion.

- Since 1980, U.S. exports to Mexico and Canada have doubled, rising from $55.3 billion to $111.4 billion. Our exports to our neighbors have grown substantially faster than those to the rest of the world.

Removal of Barriers Would Create New Trade and Investment Opportunities

- Since Mexico joined the GATT in 1986 and started its unilateral policy of lowering trade barriers, U.S. exports have more than doubled, growing from $12.4 billion to $28.4 billion.

  -- U.S. agricultural exports to Mexico totalled $2.5 billion in 1990, our third largest market.

  -- Consumer goods exports from the United States to Mexico have tripled since 1986, rising from $1 billion to $3 billion.

  -- U.S. exports of capital goods have grown from $5 billion in 1986 to about $9.5 billion last year.

- We can do better. Mexico has greater barriers to U.S. exports than we impose on Mexican shipments to the United States. For example:

  -- Mexican tariffs average 10 percent, compared to the average tariff of 4 percent we impose on Mexican exports to us.

  -- Mexico still maintains a restrictive import licensing regime, one that affects 40 percent of U.S. agricultural exports to Mexico.

- In addition, while Mexico has liberalized its investment regime, it is still closed to many U.S. investments, both in manufacturing and in services, and performance requirements distort export opportunities for U.S. products.

- Mexico has already pledged to improve its protection for intellectual property rights, and we expect action on those pledges in the near future. A NAFTA will make those reforms secure.

A NAFTA Offers Benefits to U.S. Producers, Workers and Consumers

- Economic analyses show that a NAFTA will have a positive impact on the U.S. economy and U.S. employment.

- U.S. producers and workers will benefit from a NAFTA through increased sales opportunities, improved operating efficiencies, and strengthened competitiveness vis-a-vis Asia and Europe.

- U.S. consumers will enjoy increased access to lower cost, higher quality products.

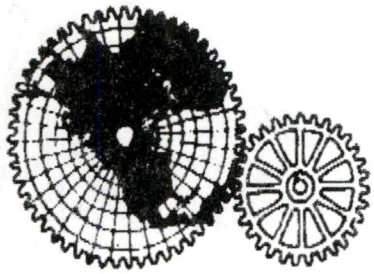
A NAFTA Strengthens the Broader North American Relationship

- A NAFTA would help cement the extensive historical, familial, cultural, and language links the United States has with both Mexico and Canada.

- More prosperous neighbors are better neighbors and better customers for U.S. goods and services.

- We have a broad agenda with both Mexico and Canada that goes well beyond trade, economic, and investment links. By boosting economic prosperity in all three nations, a NAFTA will help us make progress on issues such as the environment, drugs, and immigration.

# # #



POLYCONOMICS, INC.

Political and Economic Communications

91 MAR 29 P12:38

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COMMENTS:

March 15, 1991

Attention: Tony Snow

From: Jude

Draft Language on Mexico

Embodied in our commitment to a Free Trade Agreement with Mexico is a principle far greater than our mutual economic advantage. Our relations with our southern neighbor shall be an exemplar of the kind of world we want for our children. As the United States restored its economic strength through the principle of individual initiative during the past decade, we preached the virtues of our economic philosophy to countries worse off than we. No-one listened more closely than Mexico: its new administration tore down tariff barriers, restored the value of the peso, reduced taxes, and returned nationalized industries to the public. In consequence, Mexico is rapidly becoming one of the great success stories of this era.

By repudiating the philosophy of state controls that has brought so much misery to so many people around the world, Mexico has set an example for the developing world, including the nations of Eastern Europe still struggling to cast off the legacy of communism. Of course our economy shall benefit through closer relations with 80 million Mexicans striving to modernize their country and raise their conditions of life. More important, though, we shall recognize and foster the spirit of individual initiative that has taken hold in Mexico, and thus advance these principles in a world which has come to look to America for leadership.

There are questions being raised here about the Free Trade Agreement, concerns that the wage rates of Mexico are lower, that health and safety standards are lower, that environmental standards are not as high, that worker's rights are less protected than in the United States. All this is as true for us as it is true for the people of West Germany as they re-unite with what had been East Germany. By breaking down the walls that have separated us, we expect the commerce and industry that will expand on both sides will lift us both to higher standards, higher incomes, greater wealth and with it the public resources to clean the pollution from the earth and sky. To argue we cannot do these things because it will benefit the people of Mexico more than it will the people of the United States is an argument that I find disheartening, one I reject as one being unworthy of a good neighbor.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release March 19, 1991

REMARKS BY THE PRESIDENT
TO THE NATIONAL LEADERSHIP OF THE
HISPANIC ALLIANCE FOR FREE TRADE

The East Room

2:02 P.M. EST

THE PRESIDENT: Thank you for that warm welcome, and welcome to the White House. I'm delighted to see our traveling Secretary of Commerce, Bob Mosbacher, just back from Kuwait, looking good. A little jet lag on him. (Laughter.) But he's doing an outstanding job over there at Commerce. And also on my left over here, Carla Hills, who is our Trade Representative -- Ambassador Hills, working very, very hard on the subject that I want to talk to you today about, hard and effectively. And, of course, Dr. Boskin, I assume you know, that I rely very heavily on him on all matters economic. So you have our first team here. And that includes Barbara Bush. (Applause) And I think it's very appropriate that Mexico's able Ambassador, Ambassador Petricioli, be with us. Welcome, sir. (Applause.)

But I haven't done the personal name check, but I am told that the people gathered here span 50 states, from California to New York to Florida -- I don't know why they left out Texas. (Laughter.) Hometown heroes who are to help -- here to really -- to put it in perspective, to help lead us into the 21st century. That also brings to mind another obviously -- another group of heroes -- the heroes that we see on television almost every night now, in those very emotional scenes of people coming home, stepping off the planes and into the history books -- the courageous men and women of Operation Desert Storm. (Applause.)

But thinking of them, and looking around at this gathering of friends, I can't help but think of the incredible contributions that Hispanic-Americans have made to the defense of this country, in peacetime and in war, 38 Congressional Medals of Honor. I think of heroes like Captain Rivera, Manuel Rivera, who grew up in the South Bronx and became an accomplished Marine pilot. One of the first to fall in the air war over the Gulf. And he had dreams of becoming an astronaut. And today he has taken his place in the stars, so that we might find a better way on Earth.

The coalition triumph in the Gulf serves to remind us how much the world continues to look to the United States of America for leadership. And it reminded us also that we are a great nation, capable of great things at home and abroad. As I said in my recent address to the Joint Session of the United States Congress, the real way to honor the sacrifice of our troops is to roll up our sleeves, and for me, the rest of us in the White House, to work with the Congress to help build a better America, a better world, a better tomorrow.

We've gathered here today to seize an historic opportunity to do just exactly that. Earlier this month, I sent up to the Congress our request for an extension of the "fast track" procedures for implementing new trade agreements. It's a simple concept. For the better part of this century, this nation has recognized that trade agreements require a special kind of cooperation between Congress and the Executive Branch. Through fast track authority, Congress has made sure that the President went to the table equipped with the same bargaining powers as his

counterpart: the ability to ensure that an agreement reached overseas would be the agreement voted upon at home.

Many of you know what it's like to run a business. And you understand how critical it is to have this simple authority to reach across the table and shake hands on a deal.

No one's asking for carte blanche. We still have to bring back the best agreement possible -- bring it back to the "home office," if you will -- back to Congress for a vote. But at least fast track gives us the authority to get the deal in writing -- so that it can be presented to Congress for an up or down vote. I can assure the Congress again today that, knowing our able Trade Ambassador, we're not going to make a bad deal. We're not going to bring back a deal to the Congress that they're going to have to turn down.

We need an extension of this "fast track" authority right now -- to pursue critical new trade initiatives of unprecedented promise -- like the Uruguay Round -- we've got to complete that successfully; the Enterprise for the Americas Initiative, that means so much in our hemisphere; and the North American Free Trade Agreement. Fast track authority gives us the chance to negotiate agreements that help everyone concerned.

And as with every good business deal -- everybody wins. A vote against the extension of the fast track authority would cut off the chance to negotiate any new agreements. Simply put, a vote against fast track is a vote against trade. Against ourselves. Against our neighbors. And if we do not move forward -- a fast track -- then we're going to face a dead end, in my view.

In order to sustain the expansion of exports and of economic growth, we must continue our efforts to open up these world markets. Ambassador Hills is working, as I said, very hard to achieve success in the Uruguay Round -- to open up markets to U.S. goods and services worldwide. The free trade talks with Mexico and Canada and our Enterprise for the Americas Initiatives are designed to strengthen U.S. ties with our neighbors to the south.

Relations -- and most of you in this room know this -- relations between the United States of America and Mexico have never been better. Mexico has a bold new President, Carlos Salinas. And he's reformed that economy dramatically -- almost miraculously. And he's extended the hand of friendship to the United States of America, and I've been proud on your behalf to reach out and shake that hand.

But I want to pledge to you today that I will do my part to build on that friendship and work to create an even closer partnership between nations. Fair and free trade between our countries will help Mexico. But in my view, these important steps are in the best interest of the United States of America. They'll help us as well. Our ties with Mexico -- let's face it -- and everyone here knows it -- goes well beyond the bounds of commerce. We share cultures, heritages, families. And we -- millions of Americans -- trace their roots to Latin America. The genius and the vitality of the Latin culture have added new sparkle to our lives, our culture, our great country.

We want to do our best to continue cultivating that genius and that vitality. Here, Hispanic businessmen and businesswomen are a critical American resource. You've been at the forefront of our trade, many in this room, right there in the forefront of the trade with, not just Mexico but with Latin America.

You speak the language; you understand the culture. And it's your determination, ingenuity and vision that have driven you to create businesses that fuel our economy and enrich our lives. And that's why we need your help. That's why I'm delighted that you accepted this invitation to come here to the White House today. We need your help. There's a lot of members of the United States Congress that don't understand the importance of fast track authority

yet. We need you to tell them that you back the fast track -- to clear the way for the Uruguay Round, the Enterprise for the Americas and, indeed, the North American Free Trade zone -- obviously, Free Trade Agreement that obviously has Mexico as a vital part of it.

A North American Free Trade Area would unite 360 million consumers; a total output of $6 trillion. And by boosting economic prosperity in Mexico, Canada and the United States, it will help us move forward on issues that concern all of us. Issues such as drugs and education, immigration and the environment.

Let me just take that environment for a second. One example. Country by country around the world, the people of the more developed nations enjoy cleaner rivers, purer air, better health, longer lives than their less-developed counterparts. Development and prosperity mean less pollution, not more. In this way, the good you do today can mean good news not only for the people of your hometowns, but also for the people of your homelands. Everybody wins. Every nation has much to gain from a new era of open doors and open minds and open trade; a future of sustained economic growth, lasting regional stability, lower prices and greater choices for consumers. More jobs, not less, more jobs will come out of these agreements. And an improved standard of living for our people and, yes, for our neighbors.

Today is an auspicious day to launch this effort. For today in California the swallows return to Capistrano. And it's a harbinger of spring. You can tell from my hay fever; we've got it right here. (Laughter.) A time of change, new growth and new beginnings. And across the continent from the Yukon to the Yucatan, you can be a part -- all of you -- of this vision for the new world. A community of nations, prosperous and free, the cornerstone of the world's first fully democratic hemisphere. Think of that. We're on the verge of that right here.

And yes, many challenges remain. Of course they do. Obstacles remain. But you can make a difference. You can encourage support for these bold new initiatives. And you can encourage Congress to act to provide new markets, new jobs, new business opportunities for all Americans.

I understand the buses are parked outside. And I think it's time to jump-start this effort. And it's time to charge up the hill, strike down the barriers and open up trade. (Applause.) So, there's a lot of excitement in the world. The recent events in the Gulf have kind of obscured the changes in Eastern Europe. And I think for a while they've obscured the fantastic moves towards democracy in this hemisphere. But now we're getting back in focus. We've won that war and now what we've got to do is extend opportunities for all Americans.

I take enormous personal pride in the fact that our relations with Mexico and countries to the south have never been better. And I can pledge to each and every one of you that I'm going to do my level-best as President, as long as I am in priveleged to live in this house, to continue to improve relations with these countries. But now I'm asking for your help. And I will take this opportunity to look over at those cameras and ask the Congress of the United States to give us the authority that we need to move things forward. (Applause.)

Thank you. And God bless the United States of America.

END 2:17 P.M. EST

FOREWORD

The Fast Track and Why It Is Essential

For the better part of this century, Congress and the Executive have recognized that the negotiation and implementation of trade agreements require special cooperation between the two Branches. In the aftermath of the record-high rates of the Smoot-Hawley Tariff Act of 1930 and the Depression that they helped fuel, both Congress and the Executive came to realize that only by working closely together in the exercise of their constitutional responsibilities could the two Branches effectively bring down foreign barriers to our trade and open opportunities for U.S. products and services in the international marketplace.

This new partnership was reflected in the Reciprocal Trade Agreements Act of 1934, which gave the President authority not only to conclude tariff-cutting agreements but also to implement them by proclamation without the need for subsequent legislation. During the following years, when the principal barriers to trade were tariffs, this arrangement proved highly successful and was responsible for the tariff reductions that promoted post-World War II economic growth, particularly in successive rounds of multilateral tariff-cutting negotiations.

As countries began to rely less on tariff protection and more on non-tariff trade barriers, the scope of trade negotiations broadened, and the "fast track" procedures were created by Congress as the necessary complement to this broader trade agenda.

Fast track procedures for approval of trade agreements were included by Congress in trade legislation in 1974, 1979 and again in the Omnibus Trade and Competitiveness Act of 1988 ("1988 Act"). While giving Congress the assurance of meaningful participation throughout the negotiating process, fast track also provides two guarantees essential to the successful negotiation of trade agreements: (1) a vote on implementing legislation within a fixed period of time, and (2) no amendments to that legislation.

These procedures reflect an understanding that trade agreements, in which results in one area are often linked to results in others, are particularly vulnerable to multiple amendments that, while possibly small in themselves, could unravel entire agreements. Whether the balance of benefits contained in any trade agreement is in the overall interest of the United States can only be determined by looking at the whole package.

Through the fast track, Congress has given the President the same bargaining power possessed by his counterparts: the ability to assure his negotiating partners that the agreement reached internationally would be the agreement voted on at home. Without fast track, the President cannot give his negotiating partners that assurance. Without that assurance, foreign governments are reluctant to negotiate with the United States and will not make the tough concessions necessary to reach agreements the United States would be willing to sign. No negotiating partner will give its bottom line knowing that the bargain could be re-opened.

On the basis of fast track procedures, the United States has negotiated and implemented three remarkable trade agreements, each of which was approved by an overwhelming majority in both houses of Congress. These agreements -- the results of the Tokyo Round of GATT negotiations in 1979, the free-trade agreement ("FTA") with Israel in 1985, and the FTA with Canada in 1988 -- have reduced barriers to trade and provided a powerful engine for economic growth in the United States and worldwide.

The United States has much to gain through trade agreements that open markets and provide rules for free and fair trade. Maintaining the fast track will preserve our ability to continue efforts to liberalize trade and open markets through the GATT, through other multilateral agreements, and through bilateral agreements.

Extension of Fast Track Continues a Cooperative Relationship

Fast track procedures preserve Congress's role during the negotiation, approval and implementation of trade agreements. To ensure congressional and private sector input, the fast track statute contains extensive notification and consultation requirements. At each step along the way, from initiation through implementation, Congress is an active partner.

To use the fast track for any agreement, bilateral or multilateral, the President must notify Congress 90 calendar days before signature. By the time the President gives his 90-day notification, our many private sector advisory committees must report their views on the agreement both to Congress and the President. For bilateral agreements, Congress must be given advance notice of the negotiations; during the following 60 legislative working days, either the Senate Finance or House Ways & Means Committee can vote to deny fast track treatment.

Once an agreement is reached, Congress and the Administration work in close consultation to formulate implementing legislation. The process has involved the full participation of all committees of jurisdiction, and not only those committees traditionally consulted in setting trade negotiating objectives. If the agreement and its implementing

legislation are still not acceptable, they can be rejected by majority vote of either house. In fact, as a result of the extensive consultations with Congress and the private sector, the agreements that have been implemented under fast track procedures enjoyed widespread support when they were presented to Congress.

We find ourselves today engaged in bilateral and multilateral trade initiatives that hold unprecedented promise for the advancement of U.S. economic objectives. With such initiatives in the balance, now is not the time to dissolve a partnership that has endured for almost sixty years.

Continuing Fast Track is Essential to Securing Economic Gains

In incorporating the fast track in the 1988 Act, Congress expressly contemplated that an extension of the provision beyond June 1991 might be necessary and appropriate in order for the President to pursue effectively the trade policy objectives set out in the law.

The continued availability of fast track procedures over the next two years -- during which we expect to complete the Uruguay Round of multilateral negotiations, negotiate a North American Free Trade Agreement with Mexico and Canada, and pursue the trade objectives of the Enterprise for the Americas Initiative -- will enable our negotiators to bring to Congress for its consideration trade agreements that will enhance the ability of the United States to compete internationally. Supporting fast track now will allow these important negotiations to go forward without in any way detracting from Congress' ability to assess each agreement on its merits when presented for approval.

The Uruguay Round. These complex negotiations with 107 other nations (many of which are not fully integrated into the multilateral trading system) offer rich opportunities to break down trade barriers and expand the scope of international trade rules.

- Since their inception in 1986, the Uruguay Round negotiations have been conducted in fifteen areas. Our objectives include more open markets, internationally agreed rules in areas not previously covered by multilateral agreements (services, investment, intellectual property rights), and institutional improvements in the GATT. The negotiations have been difficult, and important issues remain, but there has been significant progress overall toward our objectives. That progress should not be abandoned.

- The United States had hoped to conclude the Uruguay Round last December at a ministerial level meeting in Brussels. However, the status of the negotiations on

several subjects at that time did not warrant conclusion -- particularly on agriculture. The unwillingness of the European Community ("EC"), as well as Japan and Korea, to accept a framework for agricultural reform impeded progress in the negotiations in all areas.

- We are encouraged by a recent statement of GATT Director-General Arthur Dunkel that all participants have now agreed to negotiate specific binding commitments in each of the key areas of agricultural reform, thus clearing the way for the resumption of negotiations. However, important differences in agriculture and other areas remain. Much hard bargaining lies ahead.

- The United States refused to accept a deficient Uruguay Round package in Brussels. Our high standards have not changed. Although ultimate success in the Uruguay Round cannot be guaranteed, we believe the United States should continue negotiations because a successful Round is overwhelmingly in our long-term economic interests.

North American FTA. We have a historic opportunity to achieve a North American Free Trade Agreement ("NAFTA") with Canada and Mexico. The Mexican Government has been pursuing a dramatic opening of its trading regime and has introduced market-oriented domestic reforms that benefit both Mexico and the United States. Building on those reforms and on the existing FTA we have with Canada, we can create a NAFTA that encompasses some 360 million people with almost $6 trillion in output. A comprehensive NAFTA will create growth and better jobs in all three countries, and will make us more competitive in the global marketplace.

Extension of fast track will be essential for these negotiations, which are expected to begin in late Spring.

Enterprise for the Americas Initiative. An extension of fast track will also enable the United States to take steps in the next two years toward fulfillment of the trade objectives of the Enterprise for the Americas Initiative (EAI), announced in June 1990. Although it is likely that few Latin American nations will be in a position to enter into FTA negotiations with the United States before June 1993, the United States must continue to be able to respond to the increasing pace of economic liberalization in the region.

* * * * *

The United States has an enormous stake in the future of the global trading system. Exports have become a vital source of strength to the U.S. economy. In 1990, the nearly 8.5 percent growth in U.S. exports accounted for 88 percent of U.S. GNP growth. Since 1986, expanded exports have accounted for over 40 percent of the growth in U.S. GNP. In order to sustain the expansion of exports and consequent growth, we must continue our efforts to open world markets. We must maintain our active leadership role. Without an extension of fast track, those efforts and that role are placed in jeopardy.

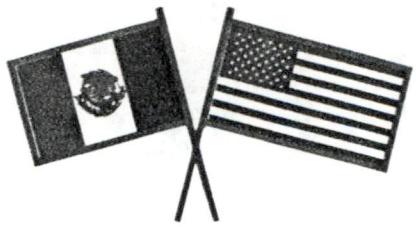
Preserving fast track procedures -- and the partnership between Congress and the Executive Branch which fast track represents -- will keep on course our joint efforts to liberalize trade and open markets through the initiatives described above and through other multilateral and bilateral agreements. No country stands to gain more from those efforts than the United States.

As we approach the beginning of a new century, we should not hesitate to pursue the opportunities for economic growth and prosperity presented by successful trade negotiations. In order to turn those opportunities into realities, Congress and the Executive must continue to work together in the manner envisioned by the fast track.

This is from TSnow for yr info.

The Heritage Foundation

Mexico Watch



No. 10 *A Review of United States-Mexican Relations* February 1991

MEXICO ISSUES UPDATE

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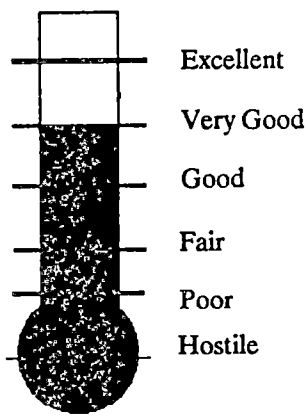
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U.S. Mexico Relations



The Heritage Foundation *Mexico Watch*, Michael G. Wilson, Editor; Kim R. Holmes, Publisher. The Heritage Foundation, 214 Massachusetts Ave., N.E., Washington, D.C. 20002; (202) 546-4400. CABLE: HERITAGE WASHINGTONDC; FAX (202) 544-2260. Nothing herein is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

AT&T SHIFTS THREE OPERATIONS TO MEXICO

WHAT HAPPENED?

- **2000 jobs gained by Mexican workers**
- **No, repeat, NO factory jobs lost by US workers**
- **Hundreds of millions of dollars in new business generated for AT&T and other US firms**

IT'S A WIN--WIN SITUATION

Win-Win one: 1991--$120-125 Million in answering machines are manufactured by Asian OEM manufacturers with AT&T logo.

1993--$70 million (60 percent) of the AT&T's needs will be filled by their own new plant in Guadalajara.

1750 new jobs for Mexicans--No jobs lost by Americans

Win-Win two: Construction of new plant will generate millions of dollars on new business for US firms: US architectural and engineering firms have designed the new factory jointly with Mexican firms. Something under half of the building materials will be from US manufacturers.

Win-Win three: 100 semi-skilled jobs for Mexicans were created when AT&T moved repair work on its cordless telephones from Singapore to Sabinas, Mexico. No factory jobs were lost in US.

The shift helped AT&T increase its market share of cordless phone sales by cutting repair time from 17 weeks to 3-4 weeks.

Win four: Mexico: 80 jobs created in Mexico when AT&T shifted assembly work from the Pacific Rim. No US factory jobs lost.

Win Five: USA: AT&T made several hundred millions of dollars worth of sales in Mexico that it might not have won if its expanded presence in Mexico had not

- increased its awareness of the market
- helped it decide how to address the market.

In the process, several thousand US manufacturing and office jobs will be generated or made more secure.

CELADON TRANSPORTATION GROUP

Case: A Transportation Company doing One-Third of its business with Mexico:

- o Cross-border business is booming:
  - Company grew from 0 to $140 million in revenue in six years--about one third is due to Mexican operations.
  - Anticipate its Mexican business to grow by $60 M in next couple of years.
- o Expansion in Mexico doesn't necessarily mean shift jobs to Mexico.
  - The company has 1150 employees in the US -- 400 directly related to the Mexican operations.
  - It take only 12 employees in Mexico to support the $45M in current business.
  - With $60 million in anticipated growth, the company will add 55 to 65 new jobs in the US.
  - It will take only another 4 to 6 employees in Mexico to support this $60 M in anticipated growth.--a ratio of 10 to 12 US jobs for every incremental job in Mexico.
- o Expansion of US manufacturers in Mexico leads to expansion of US service providers in Mexico.
  - The Company does 70 percent of its business with US firms with plants in Mexico.
  - 10 percent with Mexican firms.
  - 20 percent with firms from third countries.
- o Unionized labor benefits from expanded trade with Mexico. For example:
  - 45 percent of Celadon's business is hauled by truckers
  - 40 percent goes by air freight
  - 5 percent goes by ocean carrier
  - 10 percent of Celadon's business concerns travel, logistics, and other related activities.

Case: Intergraph Corporation: what does that mean?

Intergraph Corporation is a $1 billion business that provides total solution to businesses need for customized hardware/software computer graphics assemblies. They had a distributor in Mexico for six years. Then in 1989, Mexico changed its foreign investment rules; Intergraph bought out their distributor. The wholey-owned subsidiary now does $3 - 4 million/ year of business.

Last year, they worked with a Mexican firm--Cerrey, a boilermaker in Monterey. They provided this firm with CAD assemblies to design their own boilers and, in addition, ones to design the plants where these boilers would be installed.

This is an example of the kind of business opportunities that the NAFTA present to US business. Cerrey is a forward looking Mexican firm. In anticipation of having to face global competition, it is making the capital purchases needed to modernize its method of operation.

Note that Intergraph's billing represented only a small portion of the total US exports in this deal. Most of the software and hardware utilized was of US origin.

FAX for approval to David Lewis
(title)_____
(305)-782-1199

State of South Carolina

Office of the Governor

CARROLL A. CAMPBELL, JR.
GOVERNOR

POST OFFICE BOX 11369
COLUMBIA 29211

March 15, 1991

The Honorable Carla A. Hills
United States Trade Representative
600 17th Street, N.W.
Washington, DC 20506

Dear Carla,

I have just received your request for advice on the North American Free Trade Agreement. My staff will be providing a response directly to Ms. Van Hueven. In the meantime, I offer you the following observations.

First, the Free Trade Agreement with Canada has been beneficial for South Carolina. We have seen a marked rise in the number of South Carolina businesses entering Canadian markets, and of Canadian businesses establishing operations and sales in South Carolina.

Second, with regard to Mexico, the interest expressed by South Carolina businesses in Mexican trade has risen to historic levels. About 200 South Carolina businesses are currently doing business in Mexico, or have expressed a strong desire to do so. Our state economic development agency and many businesses will be participating in a trade show in Mexico in November. A free trade agreement would be beneficial to these businesses.

On the other hand, some of the textile and apparel businesses fear greater access by Mexican businesses in the US market. These businesses feel that they have already been injured by increased imports of Mexican textile goods. Based on survey data, roughly a quarter of the textile and apparel businesses in South Carolina are in precarious business situations. The loss of domestic market share to imports, without a corresponding growth in access to international markets, is often cited as a cause for their problems. And, this sector is likely to suffer some further erosion of domestic markets as restrictions are reduced on textile imports from our allies in the Persian Gulf War.

Unlike Canada, where businesses operate under similar conditions as USA businesses, Mexican businesses are under fewer environmental and labor regulations. This situation has the potential to result in unfair disadvantages for some of South Carolina's labor intensive manufacturers.

A North American Free Trade Agreement will certainly be more complex than the existing one with Canada, and there will likely be more clear cut industry winners and losers. I suspect such an agreement would be a windfall for Mexico, and I can only hope that we in South Carolina would benefit similarly. Still, in light of the clear success of the agreement with Canada, I look forward to seeing a North American FTA scenario develop.

Please contact me if I can ever be of any assistance.

Sincerely,



Carroll A. Campbell, Jr.
Governor

The Heritage Foundation

Mexico Watch



A Review of United States-Mexican Relations

No. 10 February 1991

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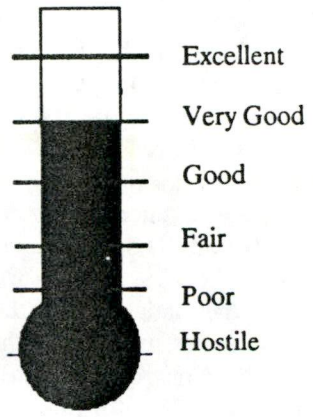
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FOREWORD

The Fast Track and Why It Is Essential

For the better part of this century, Congress and the Executive have recognized that the negotiation and implementation of trade agreements require special cooperation between the two Branches. In the aftermath of the record-high rates of the Smoot-Hawley Tariff Act of 1930 and the Depression that they helped fuel, both Congress and the Executive came to realize that only by working closely together in the exercise of their constitutional responsibilities could the two Branches effectively bring down foreign barriers to our trade and open opportunities for U.S. products and services in the international marketplace.

This new partnership was reflected in the Reciprocal Trade Agreements Act of 1934, which gave the President authority not only to conclude tariff-cutting agreements but also to implement them by proclamation without the need for subsequent legislation. During the following years, when the principal barriers to trade were tariffs, this arrangement proved highly successful and was responsible for the tariff reductions that promoted post-World War II economic growth, particularly in successive rounds of multilateral tariff-cutting negotiations.

As countries began to rely less on tariff protection and more on non-tariff trade barriers, the scope of trade negotiations broadened, and the "fast track" procedures were created by Congress as the necessary complement to this broader trade agenda.

Fast track procedures for approval of trade agreements were included by Congress in trade legislation in 1974, 1979 and again in the Omnibus Trade and Competitiveness Act of 1988 ("1988 Act"). While giving Congress the assurance of meaningful participation throughout the negotiating process, fast track also provides two guarantees essential to the successful negotiation of trade agreements: (1) a vote on implementing legislation within a fixed period of time, and (2) no amendments to that legislation.

These procedures reflect an understanding that trade agreements, in which results in one area are often linked to results in others, are particularly vulnerable to multiple amendments that, while possibly small in themselves, could unravel entire agreements. Whether the balance of benefits contained in any trade agreement is in the overall interest of the United States can only be determined by looking at the whole package.

Through the fast track, Congress has given the President the same bargaining power possessed by his counterparts: the ability to assure his negotiating partners that the agreement reached internationally would be the agreement voted on at home. Without fast track, the President cannot give his negotiating partners that assurance. Without that assurance, foreign governments are reluctant to negotiate with the United States and will not make the tough concessions necessary to reach agreements the United States would be willing to sign. No negotiating partner will give its bottom line knowing that the bargain could be re-opened.

On the basis of fast track procedures, the United States has negotiated and implemented three remarkable trade agreements, each of which was approved by an overwhelming majority in both houses of Congress. These agreements -- the results of the Tokyo Round of GATT negotiations in 1979, the free-trade agreement ("FTA") with Israel in 1985, and the FTA with Canada in 1988 -- have reduced barriers to trade and provided a powerful engine for economic growth in the United States and worldwide.

The United States has much to gain through trade agreements that open markets and provide rules for free and fair trade. Maintaining the fast track will preserve our ability to continue efforts to liberalize trade and open markets through the GATT, through other multilateral agreements, and through bilateral agreements.

Extension of Fast Track Continues a Cooperative Relationship

Fast track procedures preserve Congress's role during the negotiation, approval and implementation of trade agreements. To ensure congressional and private sector input, the fast track statute contains extensive notification and consultation requirements. At each step along the way, from initiation through implementation, Congress is an active partner.

To use the fast track for any agreement, bilateral or multilateral, the President must notify Congress 90 calendar days before signature. By the time the President gives his 90-day notification, our many private sector advisory committees must report their views on the agreement both to Congress and the President. For bilateral agreements, Congress must be given advance notice of the negotiations; during the following 60 legislative working days, either the Senate Finance or House Ways & Means Committee can vote to deny fast track treatment.

Once an agreement is reached, Congress and the Administration work in close consultation to formulate implementing legislation. The process has involved the full participation of all committees of jurisdiction, and not only those committees traditionally consulted in setting trade negotiating objectives. If the agreement and its implementing

legislation are still not acceptable, they can be rejected by majority vote of either house. In fact, as a result of the extensive consultations with Congress and the private sector, the agreements that have been implemented under fast track procedures enjoyed widespread support when they were presented to Congress.

We find ourselves today engaged in bilateral and multilateral trade initiatives that hold unprecedented promise for the advancement of U.S. economic objectives. With such initiatives in the balance, now is not the time to dissolve a partnership that has endured for almost sixty years.

Continuing Fast Track is Essential to Securing Economic Gains

In incorporating the fast track in the 1988 Act, Congress expressly contemplated that an extension of the provision beyond June 1991 might be necessary and appropriate in order for the President to pursue effectively the trade policy objectives set out in the law.

The continued availability of fast track procedures over the next two years -- during which we expect to complete the Uruguay Round of multilateral negotiations, negotiate a North American Free Trade Agreement with Mexico and Canada, and pursue the trade objectives of the Enterprise for the Americas Initiative -- will enable our negotiators to bring to Congress for its consideration trade agreements that will enhance the ability of the United States to compete internationally. Supporting fast track now will allow these important negotiations to go forward without in any way detracting from Congress' ability to assess each agreement on its merits when presented for approval.

The Uruguay Round. These complex negotiations with 107 other nations (many of which are not fully integrated into the multilateral trading system) offer rich opportunities to break down trade barriers and expand the scope of international trade rules.

- Since their inception in 1986, the Uruguay Round negotiations have been conducted in fifteen areas. Our objectives include more open markets, internationally agreed rules in areas not previously covered by multilateral agreements (services, investment, intellectual property rights), and institutional improvements in the GATT. The negotiations have been difficult, and important issues remain, but there has been significant progress overall toward our objectives. That progress should not be abandoned.

- The United States had hoped to conclude the Uruguay Round last December at a ministerial level meeting in Brussels. However, the status of the negotiations on

several subjects at that time did not warrant conclusion -- particularly on agriculture. The unwillingness of the European Community ("EC"), as well as Japan and Korea, to accept a framework for agricultural reform impeded progress in the negotiations in all areas.

- We are encouraged by a recent statement of GATT Director-General Arthur Dunkel that all participants have now agreed to negotiate specific binding commitments in each of the key areas of agricultural reform, thus clearing the way for the resumption of negotiations. However, important differences in agriculture and other areas remain. Much hard bargaining lies ahead.

- The United States refused to accept a deficient Uruguay Round package in Brussels. Our high standards have not changed. Although ultimate success in the Uruguay Round cannot be guaranteed, we believe the United States should continue negotiations because a successful Round is overwhelmingly in our long-term economic interests.

North American FTA. We have a historic opportunity to achieve a North American Free Trade Agreement ("NAFTA") with Canada and Mexico. The Mexican Government has been pursuing a dramatic opening of its trading regime and has introduced market-oriented domestic reforms that benefit both Mexico and the United States. Building on those reforms and on the existing FTA we have with Canada, we can create a NAFTA that encompasses some 360 million people with almost $6 trillion in output. A comprehensive NAFTA will create growth and better jobs in all three countries, and will make us more competitive in the global marketplace.

Extension of fast track will be essential for these negotiations, which are expected to begin in late Spring.

Enterprise for the Americas Initiative. An extension of fast track will also enable the United States to take steps in the next two years toward fulfillment of the trade objectives of the Enterprise for the Americas Initiative (EAI), announced in June 1990. Although it is likely that few Latin American nations will be in a position to enter into FTA negotiations with the United States before June 1993, the United States must continue to be able to respond to the increasing pace of economic liberalization in the region.

* * * * *

The United States has an enormous stake in the future of the global trading system. Exports have become a vital source of strength to the U.S. economy. In 1990, the nearly 8.5 percent growth in U.S. exports accounted for 88 percent of U.S. GNP growth. Since 1986, expanded exports have accounted for over 40 percent of the growth in U.S. GNP. In order to sustain the expansion of exports and consequent growth, we must continue our efforts to open world markets. We must maintain our active leadership role. Without an extension of fast track, those efforts and that role are placed in jeopardy.

Preserving fast track procedures -- and the partnership between Congress and the Executive Branch which fast track represents -- will keep on course our joint efforts to liberalize trade and open markets through the initiatives described above and through other multilateral and bilateral agreements. No country stands to gain more from those efforts than the United States.

As we approach the beginning of a new century, we should not hesitate to pursue the opportunities for economic growth and prosperity presented by successful trade negotiations. In order to turn those opportunities into realities, Congress and the Executive must continue to work together in the manner envisioned by the fast track.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release March 19, 1991

REMARKS BY THE PRESIDENT
TO THE NATIONAL LEADERSHIP OF THE
HISPANIC ALLIANCE FOR FREE TRADE

The East Room

2:02 P.M. EST

THE PRESIDENT: Thank you for that warm welcome, and welcome to the White House. I'm delighted to see our traveling Secretary of Commerce, Bob Mosbacher, just back from Kuwait, looking good. A little jet lag on him. (Laughter.) But he's doing an outstanding job over there at Commerce. And also on my left over here, Carla Hills, who is our Trade Representative -- Ambassador Hills, working very, very hard on the subject that I want to talk to you today about, hard and effectively. And, of course, Dr. Boskin, I assume you know, that I rely very heavily on him on all matters economic. So you have our first team here. And that includes Barbara Bush. (Applause) And I think it's very appropriate that Mexico's able Ambassador, Ambassador Petricioli, be with us. Welcome, sir. (Applause.)

But I haven't done the personal name check, but I am told that the people gathered here span 50 states, from California to New York to Florida -- I don't know why they left out Texas. (Laughter.) Hometown heroes who are to help -- here to really -- to put it in perspective, to help lead us into the 21st century. That also brings to mind another obviously -- another group of heroes -- the heroes that we see on television almost every night now, in those very emotional scenes of people coming home, stepping off the planes and into the history books -- the courageous men and women of Operation Desert Storm. (Applause.)

But thinking of them, and looking around at this gathering of friends, I can't help but think of the incredible contributions that Hispanic-Americans have made to the defense of this country, in peacetime and in war, 38 Congressional Medals of Honor. I think of heroes like Captain Rivera, Manuel Rivera, who grew up in the South Bronx and became an accomplished Marine pilot. One of the first to fall in the air war over the Gulf. And he had dreams of becoming an astronaut. And today he has taken his place in the stars, so that we might find a better way on Earth.

The coalition triumph in the Gulf serves to remind us how much the world continues to look to the United States of America for leadership. And it reminded us also that we are a great nation, capable of great things at home and abroad. As I said in my recent address to the Joint Session of the United States Congress, the real way to honor the sacrifice of our troops is to roll up our sleeves, and for me, the rest of us in the White House, to work with the Congress to help build a better America, a better world, a better tomorrow.

We've gathered here today to seize an historic opportunity to do just exactly that. Earlier this month, I sent up to the Congress our request for an extension of the "fast track" procedures for implementing new trade agreements. It's a simple concept. For the better part of this century, this nation has recognized that trade agreements require a special kind of cooperation between Congress and the Executive Branch. Through fast track authority, Congress has made sure that the President went to the table equipped with the same bargaining powers as his

MORE

counterpart: the ability to ensure that an agreement reached overseas would be the agreement voted upon at home.

Many of you know what it's like to run a business. And you understand how critical it is to have this simple authority to reach across the table and shake hands on a deal.

No one's asking for carte blanche. We still have to bring back the best agreement possible -- bring it back to the "home office," if you will -- back to Congress for a vote. But at least fast track gives us the authority to get the deal in writing -- so that it can be presented to Congress for an up or down vote. I can assure the Congress again today that, knowing our able Trade Ambassador, we're not going to make a bad deal. We're not going to bring back a deal to the Congress that they're going to have to turn down.

We need an extension of this "fast track" authority right now -- to pursue critical new trade initiatives of unprecedented promise -- like the Uruguay Round -- we've got to complete that successfully; the Enterprise for the Americas Initiative, that means so much in our hemisphere; and the North American Free Trade Agreement. Fast track authority gives us the chance to negotiate agreements that help everyone concerned.

And as with every good business deal -- everybody wins. A vote against the extension of the fast track authority would cut off the chance to negotiate any new agreements. Simply put, a vote against fast track is a vote against trade. Against ourselves. Against our neighbors. And if we do not move forward -- a fast track -- then we're going to face a dead end, in my view.

In order to sustain the expansion of exports and of economic growth, we must continue our efforts to open up these world markets. Ambassador Hills is working, as I said, very hard to achieve success in the Uruguay Round -- to open up markets to U.S. goods and services worldwide. The free trade talks with Mexico and Canada and our Enterprise for the Americas Initiatives are designed to strengthen U.S. ties with our neighbors to the south.

Relations -- and most of you in this room know this -- relations between the United States of America and Mexico have never been better. Mexico has a bold new President, Carlos Salinas. And he's reformed that economy dramatically -- almost miraculously. And he's extended the hand of friendship to the United States of America, and I've been proud on your behalf to reach out and shake that hand.

But I want to pledge to you today that I will do my part to build on that friendship and work to create an even closer partnership between nations. Fair and free trade between our countries will help Mexico. But in my view, these important steps are in the best interest of the United States of America. They'll help us as well. Our ties with Mexico -- let's face it -- and everyone here knows it -- goes well beyond the bounds of commerce. We share cultures, heritages, families. And we -- millions of Americans -- trace their roots to Latin America. The genius and the vitality of the Latin culture have added new sparkle to our lives, our culture, our great country.

We want to do our best to continue cultivating that genius and that vitality. Here, Hispanic businessmen and businesswomen are a critical American resource. You've been at the forefront of our trade, many in this room, right there in the forefront of the trade with, not just Mexico but with Latin America.

You speak the language; you understand the culture. And it's your determination, ingenuity and vision that have driven you to create businesses that fuel our economy and enrich our lives. And that's why we need your help. That's why I'm delighted that you accepted this invitation to come here to the White House today. We need your help. There's a lot of members of the United States Congress that don't understand the importance of fast track authority

yet. We need you to tell them that you back the fast track -- to clear the way for the Uruguay Round, the Enterprise for the Americas and, indeed, the North American Free Trade zone -- obviously, Free Trade Agreement that obviously has Mexico as a vital part of it.

A North American Free Trade Area would unite 360 million consumers; a total output of $6 trillion. And by boosting economic prosperity in Mexico, Canada and the United States, it will help us move forward on issues that concern all of us. Issues such as drugs and education, immigration and the environment.

Let me just take that environment for a second. One example. Country by country around the world, the people of the more developed nations enjoy cleaner rivers, purer air, better health, longer lives than their less-developed counterparts. Development and prosperity mean less pollution, not more. In this way, the good you do today can mean good news not only for the people of your hometowns, but also for the people of your homelands. Everybody wins. Every nation has much to gain from a new era of open doors and open minds and open trade; a future of sustained economic growth, lasting regional stability, lower prices and greater choices for consumers. More jobs, not less, more jobs will come out of these agreements. And an improved standard of living for our people and, yes, for our neighbors.

Today is an auspicious day to launch this effort. For today in California the swallows return to Capistrano. And it's a harbinger of spring. You can tell from my hay fever; we've got it right here. (Laughter.) A time of change, new growth and new beginnings. And across the continent from the Yukon to the Yucatan, you can be a part -- all of you -- of this vision for the new world. A community of nations, prosperous and free, the cornerstone of the world's first fully democratic hemisphere. Think of that. We're on the verge of that right here.

And yes, many challenges remain. Of course they do. Obstacles remain. But you can make a difference. You can encourage support for these bold new initiatives. And you can encourage Congress to act to provide new markets, new jobs, new business opportunities for all Americans.

I understand the buses are parked outside. And I think it's time to jump-start this effort. And it's time to charge up the hill, strike down the barriers and open up trade. (Applause.) So, there's a lot of excitement in the world. The recent events in the Gulf have kind of obscured the changes in Eastern Europe. And I think for a while they've obscured the fantastic moves towards democracy in this hemisphere. But now we're getting back in focus. We've won that war and now what we've got to do is extend opportunities for all Americans.

I take enormous personal pride in the fact that our relations with Mexico and countries to the south have never been better. And I can pledge to each and every one of you that I'm going to do my level-best as President, as long as I am in priveleged to live in this house, to continue to improve relations with these countries. But now I'm asking for your help. And I will take this opportunity to look over at those cameras and ask the Congress of the United States to give us the authority that we need to move things forward. (Applause.)

Thank you. And God bless the United States of America.

END 2:17 P.M. EST

N.Y.TIMES:01-23-91

MEXICO OVERHAULS ELECTORAL ROLLS

40 Million to Register Again in a Government Effort to Fight Fraud Charges

184

By MARK A. UHLIG
Special to The New York Times

MEXICO CITY, Jan. 22 — In a vast door-to-door campaign, Goverment workers here have begun a nationwide overhaul of Mexico's electoral rolls intended to combat charges of corruption in future national elections.

The effort, which is scheduled to be completed in time for federal elections in August, will require the re-registration of more than 40 million Mexican voters.

But it is seen as a culmination of years of growing dispute over the existing voter list, or padrón, which opposition leaders assert has long been manipulated to favor the Institutional Revolutionary Party led by President Carlos Salinas de Gortari.

"This is absolutely central to the success of any kind of political reform in Mexico, especially in light of the kinds of fraud that seem to have occurred in recent state and local elections," said Wayne A. Cornelius, director of the Center for U.S.-Mexican Studies at the University of California, San Diego, referring to the registration effort.

"There are very high stakes involved both for the opposition and for the credibility of the Government's entire political reform project."

Tampering Is Denied

Officials of the PRI, as the governing party is known, have staunchly denied tampering with the voting lists, asserting that any such fraud would require an omniscient ability to predict how individual voters would cast their ballots. If any political party were capable of such reliable insight into voter behavior, they argue, it would have no need for padding voter lists.

But PRI leaders have become increasingly frustrated by what they describe as an ingrained public perception that their party cannot win elections without resorting to fraud. They say that the party has chosen to promote the expensive re-registration process as a means of convincing skeptical Mexican and international public opinion of their commitment to political reform.

"The opposition's hopes for publicity were centered on attacking the padrón," said César Agusto Santiago, the senior campaign official in the PRI. "Every election in which the PRI won, or gained ground, the criticism was focused on the padrón."

Controversy over the voting list reached a high point before local elections in the state of Mexico last November, when opposition parties accused the PRI of deliberately padding the list with thousands of false and duplicate names. PRI candidates swept the elections by margins of as much as 20 to 1 over their closest opponents.

New Voting Credential

Opposition leaders asserted that the Government, which by law must present the list to all political parties for review, sought to disguise the fraud by delivering the list on encoded magnetic tapes that could be deciphered on only a handful of computers in the country.

Although opposition parties did not carry through on their threat to boycott the November vote, they declared that they were taking part "under protest," and later accused the PRI of widespread election-day irregularities that ranged from stuffing ballot boxes to switching the location of voting booths at the last minute to confuse opposition voters.

In a process that began on Jan. 15, Government workers have begun visiting homes across the nation to collect the information necessary for the new voting list, and to prepare for the distribution of a new voting credential that will be issued to all registered voters in time for the August elections.

Because of the cost and practical limitations, the credentials will not carry photographs to identify their bearers, as Government critics had demanded, but photographic credentials are expected to be introduced in time for the next presidential elections in 1994.

Government officials assert that the opposition parties will have repeated opportunities to review and test the new list, and to challenge any suspected irregularities that might compromise its fairness.

Technical Basis Challenged

But some Government opponents have already challenged the technical basis of the registration process. And even those who believe the registration itself appears sound say that, measured against other allegations of larger fraud in the voting process itself, the value of the new list will depend on the uses to which it is put.

"You have to make sure that the padrón that the parties are given is the same that is used on election day," said Lorenzo Meyer, a prominent Mexican political scientist and frequent critic of Government policy. "If there is no willingness to use elections in a fair way, any padrón will be irrelevant."

WALL ST.J.:01-25-91

63/184

Pressing Mexico to Protect Intellectual Property

On Jan. 19, 1990, amid much fanfare, the Mexican government published its "National Program for Modernization of Industry and Foreign Trade." Whether intended or not, this program acted as a wedge to open up the country to the idea of a free-trade agreement with the U.S. A large component of the new program involved a revision of laws that inadequately protect intellectual-property rights. Jaime Serra Puche, Mexico's minister of trade and industry, optimistically announced on Jan. 26 that proper revisions in laws protecting intellectual property "will be introduced to the Mexican Congress before the

The Americas

By Joe W. Pitts

end of 1990." U.S. Trade Representative Carla Hills removed Mexico from the "Priority Watch List" for the Super 301 retaliatory provisions of the Omnibus Trade Act.

One year later, the corrective Mexican legislation has yet to be acted upon by a complacent Mexican Congress. It is possible that the new bills will be reintroduced and passed this spring. However, the legislators' failure to pass them when expected illustrates the formidable political and social obstacles that remain in the path of reform in Mexico in general, and a free-trade agreement in particular.

Protection for intellectual property—patents, copyrights, trademarks, trade secrets and other proprietary information—is an effective measure of true reform in Mexico because of the longstanding and entrenched views regarding the subject. Mexico and a number of other developing Latin American countries have for years had a bias against legal protection of this sort of property. They tend to view the often intangible ideas, forms, symbols and processes protected by intellectual-property law as "the common heritage of mankind."

During Luis Echeverria's presidency in the early 1970s, these tendencies culminated in a spate of restrictive laws aimed at increasing Mexican control over foreign investment and technology, including the Technology Transfer Law (TTL) and the Intellectual Property Law (IPL). The TTL treats license rights in technology as a sale of the technology itself, so that rights to use the technology without compensation persist even after the license has ended.

The TTL also requires that any agreement dealing with technology be registered with a government bureaucracy. And registration can be refused (rendering the agreement void and unenforceable) if any "objectionable" clauses are present. Such standard clauses as rights to "grantbacks" of improvements in the technology or confidentiality obligations continuing beyond the term of the agreement are "objectionable."

The regulations issued under the TTL were amended last year to lessen substantially the discretion that bureaucrats have to refuse to register agreements. Foreign licensers of computer software now need to register contracts only with Mexican distributors; agreements with end-users no longer need to be registered. Nevertheless, the fact that this registration law remains on the books continues to deter technological investment in Mexico.

The IPL, also enacted in the 1970s, shortened the duration of patent protection, and whole categories of products and processes were excluded from the scope of protection (including the chemical, food, pharmaceutical, metal-alloy, anti-pollution and medical sectors). Trademarks were given protection for only five years, and a cumbersome and formalistic process for registration of trademarks was established in Mexico.

Recognizing that these laws actually decreased the flow to Mexico of technology needed for economic development, President Carlos Salinas de Gortari made reforming them a priority of his administration. Last year's amendments to the TTL regulations were an important first step. But in order to accomplish Mexico's developmental objectives, more fundamental reform is needed.

The new legislation amending the IPL would lengthen the term of patent and trademark protection (from 14 to 20 years for patents, and from five to 10 years for trademarks), and would make patent protection available to most of the products and processes excluded under the existing law. Mexico also would join some of the primary international conventions to which it is not yet a party, including the Patent Cooperation Treaty and perhaps the Madrid Arrangement for registering trademarks in Europe. Trademark registration procedures would be simplified, and enforcement procedures for trademark infringement and trade-secret misappropriation enhanced.

The success of President Salinas in liberalizing somewhat the TTL regulations (which did not require legislative action) and the difficulties he encountered in amending the IPL itself (which does require legislative action) reminds us that Mexican nationalists on both the left and the right have resisted a closer trading relationship with the U.S. for years. As the reality of a free-trade agreement nears, residual fears in both nations regarding the impact on national identity and political culture are resurfacing.

The subject of intellectual property raises particularly strong Mexican sentiments of national pride and resistance to domination and control by foreigners. Nevertheless, a more attractive climate for intellectual property is a crucial prerequisite for an effective free-trade agreement.

Many of Baker & McKenzie's U.S. clients considering new, Mexican investments—both in high-tech areas such as computer software or telecommunications and in other areas such as food franchising—closely weigh the existing risks to their intellectual property against the potential rewards of investment. Consequently, we have been receiving more and more requests to monitor the proposed legislation closely and make investors' concerns known to the Mexican government. Similarly, many of our Mexican clients—some of the most entrepreneurial and imaginative individuals and businesses in Mexico—are vitally interested in a Mexican environment where innovation can flourish.

While political pressures may create special exceptions or delay implementation of intellectual-property reform when the Mexican legislation is reintroduced in the spring, it is important for both Mexico and the U.S. that basic protections offered by Mexico be brought into line with those in the industrialized countries. Trying to achieve basic intellectual-property reform through the vehicle of the U.S.-Mexico free-trade agreement itself, as opposed to the domestic-legislation route, could threaten the whole concept of free trade with Mexico.

U.S. competitiveness increasingly turns on its continued advantages in technological sectors, and Mexico's economic future increasingly depends on access to technology. The stakes are too high to allow outdated nationalistic notions to stand in the way of both countries' best interests.

Mr. Pitts practices international law in the Dallas office of Baker & McKenzie, and is a member of the firm's Latin American Practice Group.

N.Y.TIMES:01-30-91

Canada Is Expected to Join U.S.-Mexico Trade Talks

53/184

By MARK A. UHLIG

Special to The New York Times

MEXICO CITY, Jan. 29 — After months of high-level talks, the United States, Mexico and Canada have reached agreement to include Canada in negotiations toward a continent-wide North American free-trade zone, diplomats and trade officials said today.

The agreement, which has not yet been officially announced, would make Canada a direct participant in talks that have been under discussion by the United States and Mexico since the middle of last year.

The negotiations envisioned in the agreement would seek to bind the three countries' economies in a common market that would include more than 350 million people and would be larger than the European Economic Community. Such a huge unhindered market would encompass interests as diverse as the machine shops of northern Mexico, the financial district of New York and the farmlands of western Canada.

"Everything is ready," one diplomat said, describing preparations for the three-way talks. "It's just a matter of making the formal announcement."

Administration officials in Washington said that any inclusion of Canada, which signed a bilateral free-trade agreement with the United States in 1988, would probably oblige President Bush to notify Congress that new trade negotiations were planned. A notification of the United States-Mexican trade talks was sent to Capitol Hill on Sept. 25. After receiving notification, Congress can within 60 legislative days disapprove of the proposed talks.

Diplomats said the inclusion of Canada would probably not delay the start of the talks with Mexico, which are expected to begin this spring. They said the talks could take account of Canada while awaiting the direct participation of Canadian negotiators after the 60-day Congressional period has passed.

Support in Mexico City

In Mexico City today, business leaders who have been involved in the trade talks expressed support for broadening the negotiations.

"This could be the birth of a commercially united America, equal to the united Europe that is expected in 1992," said Francisco del Cueto, a spokesman for the Foreign Trade Coordinator for Business Organizations, a council of 500 Mexican business executives that is advising the Mexican Government on free-trade issues. "If it includes more countries, it gives more alternatives to Mexican producers and consumers."

Speculation about the possibility of continent-wide free-trade negotiations has been strong since last year, when President Carlos Salinas de Gortari formally requested free-trade talks with the United States.

Canada quickly expressed interest in having a role in the new talks, but its status was left unclear amid uncertainty about how its inclusion might affect the Mexican-United States talks, which were considered a high priority by both countries.

A Sense of Urgency

President Salinas has sought to conclude a free-trade pact quickly to accelerate the economic growth that has become a hallmark and a crucial test of his administration. President Bush has also made an accord a central economic objective and has sought to complete it before it could become embroiled in the politics of the 1992 Presidential election year.

As discussion about broadening the talks has grown, Mexican politicians and commentators have expressed concern that Canada's participation, could slow the process and reduce Mexico to the status of a latecomer to the 1988 United States-Canada accord.

But American officials have appeared increasingly receptive to the idea of a three-way negotiation. In his letter to Congress last September requesting permission to negotiate a Mexican-American agreement, President Bush said Canada would be consulted. Since then, the three countries have held a series of meetings to work out the details of Canada's participation, including a high-level conference at the Mexican resort of Cancun earlier this month.

Reaction in Washington

Administration officials in Washington today would not directly confirm that an agreement had been reached to include Canada. But a spokesman for Carla A. Hills, the United States trade representative, said Mrs. Hills had made clear her receptiveness to such an arrangement.

"She has said in the past that she sees no technical or substantial obstacles to Canada's participation," said the spokesman, Timothy O'Leary.

In seeking a direct role in the negotiations, Prime Minister Brian Mulroney of Canada has argued that any United States-Mexican agreement would inevitably affect Canada.

Canada and the United States exchange more than $150 billion of goods and services each year and each is the other's most important trading partner.

Mexico's two-way trade with the United States is more than $60 billion, making Mexico the United States' third-largest trading partner, after Canada and Japan. Mexican trade with Canada amounts to only $2.5 billion annually, but has grown rapidly in recent years.

WASH.POST:02-08-91
162

Factions Dig In Positions Against Mexico Trade Pact

Opposition Fears Loss of Jobs, Factories

20/53/184/130

By Stuart Auerbach
Washington Post Staff Writer

The free-trade agreement with Canada barely caused a ripple for American politicians. It was hailed as a historic breakthrough by the Reagan administration and cleared Congress with hardly a dissenting word.

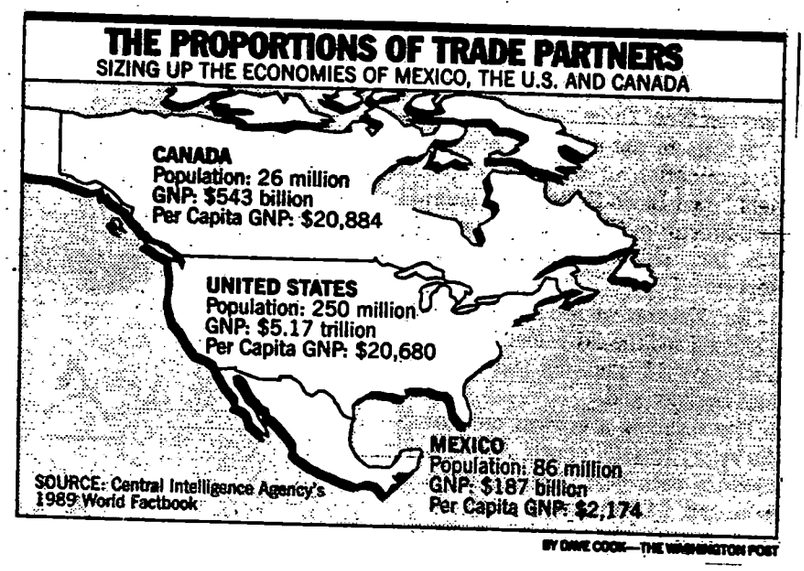
It is a different story with Mexico. With a vast disparity in economic and social conditions between the United States and Mexico, opposition formed even before President Bush formally sought permission from Congress to negotiate a North American free-trade agreement. Even congressional supporters raised questions over the desirability of forging close commercial ties between countries with such different degrees of economic power as the United States, Canada and Mexico.

With the U.S. economy 10 times greater than Canada's, the political ripples over the U.S.-Canada free-trade agreement were generally north of the border, where nationalistic-minded Canadians feared their economic independence would be lost as a result of closer ties with the United States.

The United States is even more of a giant when compared to Mexico, but the usually vocal Mexican left has been muted—at least so far—in the debate.

By contrast, a wide variety of U.S. political, economic and social interests, headed by organized labor, are questioning the validity of expanding the U.S.-Canadian free-trade agreement to include Mexico.

As a tactical step, the U.S. opponents are focusing their attack on giving the Bush administration "fast track" authority, which allows it to bring up an agreement to Congress within two years with no amendments nor delaying tactics. Their real concerns, however, have more to do with fears of losing jobs and factories to Mexico.



The administration has been downplaying the vast economic differences between the United States and Mexico. Bush trumpeted a North American free-trade zone, saying it would create the world's largest open market consisting of 360 million people with a combined output of $6 trillion. He failed to mention, however, that almost all of the economic strength and a vast majority of the people come from the United States, a sharp difference from the European Community's common market, where the economic disparity among its 12 members is far less.

The U.S. economy is the largest in the world, totaling some $5.2 trillion, and it has a population 10 times greater than Canada's and almost three times larger than Mexico's. As a result, U.S. Trade Representative Carla Hills said, "I can't claim massive winning sectors [for U.S. industry] because the Mexican economy is so small."

"Never has a developed country of our wealth and size tried to negotiate a free-trade agreement with a developing country like Mexico. Mexican wage rates are one-seventh U.S. levels. That concerns many U.S. industries and workers. It concerns me," Senate Finance Committee Chairman Lloyd Bentsen (D-Tex.) said Wednesday, at the opening congressional hearing into the agreement. Bentsen is one of the agreement's strongest congressional supporters.

Organized labor fears low wages will lead to a flight of U.S. jobs to Mexico as companies move south with the certainty that a free-trade pact will allow them to send products into the United States without tariffs.

"The AFL-CIO believes that the huge differences that presently exist between the United States and Mexico make the establishment of a free-trade area both damaging to U.S. workers and of little benefit to Mexican workers," said Thomas R. Donahue, secretary-treasurer of the AFL-CIO.

"What we need," said Craig Merrilees of the National Toxics Campaign, "is a trade agreement that will promote social and environmental justice on both sides of the border."

Like organized labor, environmentalists fear that U.S. businesses will skip to Mexico to avoid stricter U.S. pollution-control laws.

Hills gave short shrift to the environmental arguments, saying Mexico has environmental laws similar to those in the United States, even though enforcement sometimes lag, and that U.S. companies are unlikely to flee to Mexico because of the pollution laws.

The big support for the Mexico accord comes from major business groups such as the Business Roundta-

ble and the U.S. Chamber of Commerce, which said an agreement would help U.S. competitiveness.

But U.S. and Mexican officials have said they need to gain support of small and medium-sized businesses in the United States if they are to overcome the fast-developing and highly vocal opposition.

Textile and apparel manufacturers, for example, quickly declared their opposition even though Hills said their sector is running a trade surplus with Mexico.

Mexican Trade Minister Jaime Serra Puche told Washington Post reporters and editors Tuesday that textile manufacturers could be big winners because the fabric and yarn they make with machines in this country can be sold in Mexico, where low-wage workers will do the labor-intensive jobs of turning the cloth into garments.

Regional splits over the free-trade pact also surfaced during the Senate Finance Committee hearing.

Arizona Sens. Dennis DeConcini (D) and John McCain (R), whose state is expected to gain from free trade with Mexico, testified in favor of the agreement.

But Sen. Donald W. Riegle Jr. (D-Mich.), whose largely industrial state might lose high-paying manufacturing jobs, called for any agreement to address labor and environmental standards, which he said "are not enforced in Mexico."

N.Y.TIMES:02-06-91

Canada to Join U.S. and Mexico in Talks on Free Trade

53/184

By CLYDE H. FARNSWORTH

Special to The New York Times

WASHINGTON, Feb. 5 — The United States, Canada and Mexico announced today that they would open talks, probably starting this summer, to create a North American free trade zone that would be one of the world's largest open markets, with 360 million consumers and annual output of $6 trillion.

The announcement, which was widely anticipated, means that Canada, with which the United States has a two-year-old free trade pact, will join as a full participant in talks at which the United States and Mexico intend to try to reduce trade barriers at the Rio Grande.

The negotiations are likely to be highly contentious in all three countries, where many domestic industries share a fear of greater competition and are expected to try to preserve tariff walls.

Far-Reaching Idea

The official announcements were upbeat. President Bush said at a news conference before a joint communiqué was issued in the three capitals that he had spoken with President Carlos Salinas de Gortari of Mexico and Prime Minister Brian Mulroney of Canada, who said the pact would link the three economies "in bold and far-reaching ways."

The United States trade representative, Carla A. Hills, said in an interview that she thought the three-way negotiations might be concluded by the end of this year.

Among the opposition in the United States, the A.F.L.-C.I.O., worried about a flood of low-wage Mexican products affecting not only imports but also wage levels, has made its opposition to fighting the pact its No. 1 legislative goal.

Environmental Concerns

American environmental groups are also urging that the Bush Administration seek greater commitments from the Salinas administration on improving air and water standards before any agreement is concluded.

But multinational business organizations, which could enjoy greater economies of scale from a market even larger than that of the 12-nation European Community, are ready to back the talks.

Should the Mexican pact follow what was negotiated after 18 months of often bitter talks with Canada in the late 1980's, tariffs and other barriers would be progressively cut over a 10-year transition period.

The Canadian-American pact has pleased the industries and Governments of both countries so much that tariff-cutting schedules for a number of industry sectors are being accelerated. But that pact still remains highly controversial in Canada, where a number of groups say it has aggravated plant closings in the current recession.

Benefits for Canada

A study published today by the Royal Bank of Canada found that the pact had not contributed to the current difficulties experienced by some industries in Canada and that it might have moderated the impact of the recession through higher levels of investment.

By March 1, the Bush Administration is expected to ask Congress for a two-year extension of so-called fast-track authority to permit Congress to approve the agreement without amendments.

Such authority, which expires May 31, is considered essential for the trade pact to go forward.

The negotiations are not expected to begin until this summer to give the two Congressional committees charged with overseeing trade matters time to register any possible dissent.

But the fight in Congress is expected to be more over the Administration's request to seek the fast-track authority, which it would use both for the Mexico negotiations and for the now stalled global trade talks known as the Uruguay Round.

Separately, the chairman of the Senate Finance Committee, Lloyd Bentsen, Democrat of Texas, released a report by the International Trade Commission, a Federal agency that analyzes trade issues for the Government, that concluded that a free trade agreement with Mexico would benefit the United States economy over all.

But it said the benefits were likely to be small at least over the next few years because of the relatively small size of the Mexican economy and because a sizable share of United States imports from Mexico already enters the United States duty free.

Caution in Canada

Special to The New York Times

TORONTO, Feb. 5 — Canada's Trade Minister said today that while the Government saw little risk to Canada's manufacturing industries from the agreement to hold free-trade negotiations among the United States, Mexico and Canada, Canada reserved the right to pull out of the talks if they took a turn that threatened Canadian interests.

John Crosbie, the Canadian Trade Minister, told reporters in Ottawa after the agreement was announced that official projections suggested Canadian industries could hold their own against low-wage plants in Mexico. Because Canadian industries are increasingly shifting to high-technology production, Mr. Crosbie said, their real competition in Canada's domestic market came from Japan and Western Europe, not Mexico.

During the preliminary discussions, Canadian labor unions made it clear they would oppose any broadening of the free trade pact between Canada and the United States, dating from Jan. 1, 1989, to include Mexico. Shirley Carr, president of the Canadian Labor Congress, the country's biggest labor organization, said today that Canada had already lost 200,000 jobs from the two-nation pact.

Although Mexico is Canada's largest trading partner in Latin America, two-way trade between the countries in 1990 totaled less than $2.2 billion, compared with more than $150 billion in trade between Canada and the United States.

WALL ST.J.:02-12-91

Mexico's Union Boss, Ally of Salinas, Is a Stumbling Block in Trade Talks

By MATT MOFFETT 52/184/130
Staff Reporter of THE WALL STREET JOURNAL

MEXICO CITY – Political cartoonists here have never quite agreed on how to render Fidel Velazquez, Mexico's 90-year-old union czar. Playing up his dark glasses and slicked-back hair, some draw the labor boss as a sinister gangster. Other artists emphasize the role of Mr. Velazquez's or- and cigar to sketch him as a grandfatherly vaudevillian.

The question of whether Mr. Velazquez is sinister or not is one question in the complex negotiations over a free trade agreement between the U.S. and Mexico.

The biggest opposition to the pact is coming from U.S. unions. They say free trade could depress U.S. wages and send jobs fleeing to Mexico, where businesses often benefit from repression, corruption and lax work standards linked to Mr. Velazquez's government-loyal labor umbrella group, the Confederation of Mexican Workers. "Fidel Velazquez is the Al Capone of Mexico's labor relations," says Daniel La Botz, an analyst for a U.S. worker rights group that has assailed the free-trade push.

U.S. proponents of free trade—big business and administration officials concerned about keeping a stable Mexico—emphasize the role of Mr. Velasquez's organization in maintaining tranquility during Mexico's debilitating debt crisis. "It's very easy to look at this in simplistic terms and say this is wrong," says Nicholas Scheele, director of Ford Motor Co. in Mexico. "But is there any other country in the world where the working class . . . took a hit in their purchasing power of in excess of 50% over an eight-year period and you didn't have social revolution?"

As head of a vast labor network that doubles as the last redoubt of an increasingly unpopular ruling political party, Mr. Velazquez stands at the crossroads where economic reform and political reform converge. On one hand, the government needs tight control of labor to buy time for its market oriented-economic reforms to flourish. On the other hand, it needs to dismantle the labor apparatus to make Mexico more democratic.

President Carlos Salinas de Gortari has been quite clear about which of the two reform projects he considers more urgent. "We established economic reform as the priority, and to be able to realize it, we have used mechanisms of the political system that permit this dialogue and this consensus-building," President Salinas said in an interview. "I think the least convenient thing is to try to do everything at the same time, because the result can be zero."

Mr. Salinas took another incremental step toward political opening yesterday when he met with populist Sen. Porfirio Munoz Ledo in what analysts called Mr. Salinas's first public encounter with a top leader of the leftist opposition since he took Mexico's highest office amid charges of electoral fraud in 1988.

Of Mr. Velazquez, the president says: "He's a labor leader with whom it's possible to converse and to reach an agreement, and he has the ability to fulfill it. Thus, he plays a very important role in the process of economic stabilization."

Mexico's ruling elite feels its choice of priorities has been vindicated by the growing economic chaos, not to mention the rollback in political freedoms, that's occurring in the Soviet Union. They say Soviet leader Mikhail Gorbachev had it backwards when he placed a full-bore political overhaul before a relatively limited economic overhaul.

"Politically, if it's possible to have an evolution rather than a revolution, it's much more effective and better for all," says Alberto Santos, a leading industrialist, who has served as a ruling party congressman. "Fidel Velazquez has been a very important factor in political stability during economic changes."

Mr. Velazquez has always displayed at least as much sympathy for the government as for the rank and file. But during Mexico's debt crisis, he has looked the other way while workers endured hardship unmatched since the Great Depression. The number of strikes has dwindled as a result of government intimidation tactics, including the use of the army against recalcitrant unions. Mr. Velazquez forbore pushing for an immediate recuperation of purchasing power and signed onto the government anti-inflation program.

One incentive for labor officials who keep the rank and file in line is the well-refined system of graft, a system that even offends some businessmen who benefit from tame unions. The union system "has its good points," says Fernando Canales, a steel executive and member of the conservative opposition, "but in my opinion, the corruption has been carried to excess." He cites the case of a local union boss who has amassed a real estate empire.

Whatever the excesses of his subordinates, Mr. Velazquez's own style is spartan. The former milkman arrives at bargaining sessions without the retinue that accompanies most officials. At the negotiating table, he doesn't take notes but never forgets a detail, say those who have dealt with him. "He has a razor-sharp mind," says Ford's Mr. Scheele.

But for Mexican workers, the results of Mr. Velazquez's loyalty to the government have been mixed. A leading business chamber this week said that some 77,000 businesses, employing hundreds of thousands of workers, had closed since the government began tearing down trade barriers and opening the economy to foreign competition in 1986.

On the other hand, workers have benefited from the growth Mexico has recorded in each of the last two years. And a program that cut inflation to 29% last year from 170% in 1987 "has helped bring an important recuperation in purchasing power," says Jorge Vazquez Costilla, an economist at Grupo Visa, a conglomerate. He points out that some workers in service industries now earn as much as they did before the debt crisis, and that most manufacturers must now pay double the minimum wage to attract help.

The government is banking on free trade as the last step to recovery. But to even start talks, Mexico must overcome criticism of its political system, especially of the leader known as Don Fidel. "It's an odd irony," says a diplomat here. "This old man who was the government's greatest ally for a decade may in this case be one of its greatest liabilities."

L.A.TIMES:02-12-91

184 / 53 / 130

LABOR / HARRY BERNSTEIN

Let's Not Trade Away Jobs to Mexico

The Bush Administration's race to get a fast-track, free-trade agreement with Mexico may boost profits of some U.S. companies hungry for cheap labor, but it could be a disaster for millions of low-income workers in this country.

Carla Anderson Hills, the U.S. trade representative, is leading the Administration's unseemly rush to get the agreement. President Bush said such a deal would also include Canada, which has its own free-trade pact with us.

Hills, who thinks on a grand scale, hopes in time to bring other countries into a Western Hemisphere free-trade agreement, which would surely mean the export of more U.S. jobs and would further depress U.S. wages.

It would pit U.S. workers against Latin American workers who, like the Mexicans, earn a small fraction of workers' wages here.

The idea is simple enough. By removing almost all tariffs and other trade barriers, U.S. firms would be encouraged to open plants in Mexico and eventually throughout Latin America.

Providing more jobs for Mexicans and other Latin Americans is a great idea, but we shouldn't ask workers here to pay for it with their jobs, especially as our unemployment rate is rising.

Sometime in future, exporting our jobs may develop Latin America and help the United States a bit. But that distant possibility will give little comfort to U.S. workers whose jobs are moved.

There's nothing new about U.S. companies going abroad for cheap labor. However, the Administration's proposed free-trade agreements will vastly expand the territory where the companies may recruit low-wage workers and escape U.S. laws that help protect workers and control pollution.

Negotiations for a U.S.-Canadian-Mexican agreement have started, and Hills hopes to have it completed by year-end.

Early next month, however, Congress could wisely slow the rush toward the pact by rejecting President Bush's request for a two-year extension of his authority to negotiate a fast-track agreement that Congress could reject but not amend in any way.

Ramifications of a tripartite pact alone are uncertain, but it is ridiculous to compare a Western Hemisphere free-trade agreement with the 12-nation European Community scheduled to become a single market in 1992.

The EC includes many of the world's most economically advanced countries, and none are as poor as most of the countries that would be our partners in a Western Hemisphere Community.

One way to predict what will happen to our workers is to look at those *maquiladora* plants owned and operated by U.S. companies just south of our Mexican border.

The U.S. firms usually make components of a product here and ship it to their *maquiladora* plants, where it is assembled and returned to this country for sale.

The free-trade pact would change that system, to our disadvantage. A study issued last week by the U.S. International Trade Commission said the proposed pact would allow Mexico to produce more of those component parts, 95% of which are produced in this country for use in the *maquiladoras*. That shift would mean the exportation of many more jobs from this country.

The poverty-stricken Mexicans urgently need jobs and so accept 60 to 80 cents an hour, with almost no fringe benefits, from the *maquiladoras*. That is less than the average that workers are paid in other parts of Mexico and doesn't come close to our national minimum wage of $3.80 an hour or the $4.25 minimum wage in California.

The *maquiladora* owners also get favored treatment on tariffs and taxes. And because they operate in Mexico, where laws and enforcement are looser than in the United States, they seldom worry about such costly details as water and air pollution treatment, worker safety or sanitation.

It's a good deal for the U.S. companies, as shown by their rush to get into the act. In 1988, 1,000 *maquiladoras* employed about 300,000 Mexicans at wages no worker could survive on in this country.

Since then the number of *maquiladoras* has doubled, and they employ nearly 500,000, most of them young women earning about 60 cents an hour. They live in squalid shacks, often without running water, sewers or electricity.

We must not expect our workers to compete with even more of those unfortunates.

The jobs provided to Mexicans by the U.S. companies are better than none, but they are not stopping the flow of illegal aliens, as some claim.

Last week in a U.S. Senate hearing on the proposed agreement, Thomas Donahue, AFL-CIO secretary-treasurer, noted that poor Mexicans won't be deterred from trying to slip across the border, seeking jobs that pay several dollars an hour, just because a U.S.-owned *maquiladora* is offering work at 60 cents an hour.

The trade commission said the proposed agreement would lead to an expansion of *maquiladoras* throughout Mexico, no longer limiting them primarily to plants near the border.

Trade between the two countries may well increase under the proposed agreement. The trade commission concludes with the less-than-reassuring guess that the United States will "probably" end up, in time, with a net gain under a free-trade pact with Mexico.

The AFL-CIO's Donahue said all of us must help raise Mexican living standards with everything from debt relief to expanded foreign aid and development. But he correctly complains that the proposed trade pact "asks only our workers to pay for Mexican development. There is no equality of sacrifice, no sharing of the burdens of assisting our neighbor."

Organized labor may not stop the proposed agreement, but if Congress takes it off the dangerous fast track it is on, an agreement debated in depth might be devised that would help workers of all the nations involved, not mostly corporations in their quest for cheap labor.

POLITICAL SITUATION

N.Y.TIMES:02-15-91

Mexican Opposition Urges Observers for Vote

By MARK A. UHLIG
Special to The New York Times

MEXICO CITY, Feb. 14 — Despite strong Government resistance, opposition leaders here have stepped up calls for the invitation of international observers to guard against fraud in coming Mexican elections.

The use of such outside monitoring, which has been successfully employed in countries including Haiti and the Philippines, has long been rejected by Mexico's governing Institutional Revolutionary Party as a violation of national sovereignty.

But it has become an increasing focus of attention for Mexican opposition leaders, who see it as their only effective potential deterrent against the systematic election fraud that they say has sustained the governing party in power for more than 60 years.

Among other tactics, Government opponents are seeking to link the observer issue to progress in negotiations toward a North American free-trade agreement, and have proposed a range of election-monitoring plans that could be put in place as early as August, when Mexico is scheduled to hold federal elections.

Opposition leaders like Luis H. Alvarez, president of the National Action Party, have publicly challenged the Government's hostility toward a vote-monitoring system. They have also appealed to the United States and international organizations to exert pressure on behalf of a process that they have portrayed as an issue of human rights, rather than political debate.

"There is no reason in the world why the United States, the U.N., the O.A.S., Western Europe and Canada supervise elections in Haiti, Nicaragua, the Philippines and Chile, but not in Mexico," said Jorge Castaneda, an opposition intellectual and political scientist, testifying recently before the United States House of Representatives.

Allegations of voting manipulation have long been a part of Mexico's political life. But the issue was thrown into sharp relief in November during local elections in the state of Mexico, just outside the capital. Although opposition candidates had carried the state in national elections just two years earlier, the governing party, known by its Spanish initials, P.R.I., reported a sweeping victory by margins of as much as 20 to 1 over its nearest opponents, prompting accusations of fraud.

Shortly before the election, opposition groups issued a formal request to the Organization of American States, asking it to send an observer mission to monitor the vote. But the proposed mission, which would have required permission from the Mexican Government, was rebuffed by Mexican authorities as an infringement of Mexican sovereignty and violation of the O.A.S. mandate.

Government officials, who contend that their party's reputation for fraud has cast a shadow over its legitimate election victories, assert that their hands are tied by old-school party stalwarts and nationalist public opinion.

"There are traditional elements inside the P.R.I. that will never accept outside interference," an aide to President Carlos Salinas de Gortari said.

The issue of sovereignty, which easily dominates all other issues as a subject of Mexican sensitivity, is also acknowleged as a formidable obstacle by many Government opponents.

"There is an irresolvable conlict between sovereignty and democracy," wrote Sergio Aguayo Quezada, a columnist for the center-left Mexico City newspaper, La Jornada. "What is really sad in our case is that we Mexicans have not been able to reconcile both principles by creating, for ourselves, the institutions that would guarantee us clean and free elections."

Technical experts who have helped oversee elections in polarized political contexts like in Nicaragua have asserted that any effective observation will require systematic monitoring techniques like simultaneous vote tabulation and statistical "quick counts" that would be beyond the capacity of any loosely organized group.

For that reason, many supporters of the observation idea say they would rather face a political battle over a comprehensive observer mission than risk ratifying a fraudulent vote with a weak monitoring effort.

"If we are lucky, we will have one shot at this," an opposition intellectual said. "We have to make it count."

WASH.TIMES:03-20-91

Bush sells Mexico trade pact on Hill

53/184

THE ASSOCIATED PRESS

President Bush urged business leaders yesterday to lobby Congress for a streamlined process to consider a free-trade agreement with Mexico. "We're not going to make a bad deal," he promised.

Business leaders from around the country, many of them Hispanic, were invited to the White House to hear a pitch from Mr. Bush about "fast-track" procedures for considering an agreement being sought in three-way talks among the United States, Mexico and Canada.

"I hear the buses are parked outside," Mr. Bush told the group, assembled in the East Room. "And I think it's time to jump-start this effort, and it's time to charge up the Hill [Capitol Hill], strike down the barriers and open up trade."

An agreement would strike down most tariff and trade barriers between the Untied States and Mexico. The president noted that many members of Congress remain skeptical.

Mr. Bush wants congressional approval of procedures that would set a deadline for Congress to vote a trade agreement up or down with no chance of amendment. Free-trade advocates fear that permitting amendments would cripple any chance of approval.

"No one's asking for carte blanche; we still have to bring back the best agreement possible, bring it back to the home office, if you will, back to Congress for a vote," Mr. Bush said. "But at least fast track gives us the authority to get the deal in writing so that it can be presented to Congress for an up or down vote. "And simply put, a vote against fast track is a vote against ourselves, against our neighbors. And if we do not move forward on fast track, then we're going to face a dead end, in my view."

Bill Richardson
53/184

Free Trade With Mexico, Si!

WASH.POST:03-22-91

A powerful and energetic coalition opposes the U.S.-Mexico free trade agreement. It has been strengthened by the legislative situation in Congress, where the administration seeks fast-track procedures for both the U.S.-Mexico agreement and the stalled Uruguay Round of negotiations on the General Agreement on Tariff and Trade (GATT). Under this procedure, only one vote would be necessary to grant authority for conducting both negotiations.

This has spawned a broad alliance of opposition groups ranging from labor, textile and environmental interests to those concerned about Mexico's internal political situation. Thus, a U.S. border state congressman well disposed to free trade with Mexico could end up voting against fast track because of his unhappiness about the administration's agricultural policy in the GATT round.

If, as he has stated, the president attaches personal importance to regional and global trade and the U.S.-Mexico FTA in particular, he needs to use some of his substantial political capital to sway Congress. A bipartisan coalition is going to be indispensable to the successful negotiation and approval of a free trade agreement with Mexico. So far, supporters of the agreement, including American business, have been deafeningly silent.

In addition, a special independent high-level negotiator should be appointed with sufficient national stature to assuage congressional concerns, particularly those in the Democratic majority. Ambassador Carla Hills and her negotiating team at the U.S. Trade Representative's office are understandably focused on the Uruguay negotiations. A special negotiator, concentrating solely on the Mexican agreement, could strengthen the administration's ability to conduct effective trade talks while giving much-needed visibility to the Mexican agreement.

The administration needs to assure Congress that the United States and Mexico are seriously addressing issues raised by opponents, such as the dangers of wage disparities under a free trade agreement, working conditions in Mexico, illegal drug flow and the need for stricter environmental regulations in Mexico, particularly compliance with clean-air standards at the border. These deliberations should not be tied to the free trade agreement itself, but they need to be the subject of bilateral discussions, obviously involving a variety of agencies such as the Department of Labor and the EPA, and be coordinated with the FTA negotiations.

Mexico is now announcing new environmental regulations for the *maquila* (twin assembly plant) industry, which will begin the process of defining and enforcing specific environmental laws. If the United States is serious about wanting a cleaner home, hemispheric and global environment, it should work for stronger environmental controls on both sides of the border.

Similarly, some in the United States claim that a free trade agreement will exacerbate the flow of drugs into this country. The fact is that Mexico under President Carlos Salinas de Gortari greatly strengthened its cooperation with the United States on the drug front.

The Bush administration needs to develop a long-range strategy for free trade throughout the hemisphere. Caribbean countries are already concerned that a U.S.-Mexico FTA will jeopardize trade benefits obtained under the Caribbean Basin Initiative. Other Latin nations are viewing the proposed U.S.-Mexico trade connection jealously and suspiciously.

The positive consequences in concluding a free trade agreement with Mexico far exceed the negatives. There will be better access to a growing Mexican export market, a more reliable source of petroleum, increased American ownership of Mexican subsidiaries and other assets, and expanded access to parts and labor. Tangible political benefits include a potential reduction of Mexican immigration to the United States because of augmented economic activity as well as enhanced political stability in Mexico. Finally, with the evolution of trade blocs in Asia and Europe, the FTA assists the United States and the Western Hemisphere in effectively competing in an ineradicably altered commercial environment.

Should the fast-track authority be defeated in Congress, U.S.-Mexico relations in particular, and U.S. international economic policy in general, will be severely hampered. Unless the administration acts now, the war we have won on the Persian Gulf battlefields for a new world order will be eroded by a battle lost right here at home.

The writer is a Democratic representative from New Mexico.

Mexico Locks In Price Of $17 a Barrel on Oil

WASH. POST: 3/27/91

Unusual Trading Strategy Guarantees Income

By Mark Potts
and Thomas W. Lippman
Washington Post Staff Writers

Mexico has locked in much of its budgeted oil income for the next six months and picked up an additional profit of at least $125 million by selling 100 million barrels of oil through apparently unprecedented trades on New York financial markets, according to Wall Street and Mexican government sources.

The trades in December and January, which took advantage of higher oil prices at the time, guaranteed that Mexico would receive $17 a barrel for low-quality oil that is now trading for much less. That will help the financially troubled Mexican government meet its budgetary projections, which are based on $17-a-barrel oil. Mexico gets approximately 35 percent of its government revenue from oil.

"We have to keep our economic program intact. That's the point," a senior official in the Mexican government said. "It's an interesting use of certain tools that are there."

"This is something that worked. It was a great trade," said a well-placed Wall Street source. "It's just the type of hedging that a producing government should be doing." Hedging is a form of trading that gives a buyer or seller insurance against future price fluctuations.

Many analysts say they expect other oil-producing nations, including members of OPEC, to adopt a similar strategy in the next few years. Sources said the Mexicans already are considering more such arrangements. "They're getting very market-sophisticated," the Wall Street source said. "This is not a one-shot deal."

By using commodities trading to fix prices months in advance, the experts say, producing nations could effectively set a floor for oil prices for the world.

"This will have a very arresting effect on senior management at other major oil countries," said Daniel Yergin, president of Cambridge Energy Research Associates Inc. in Boston. "Instead of doing what they've done in the past, which is assuming an oil price and plugging it into your budget, what [the Mexicans] have done is gone much farther than that. . . . Up until now, they've always struggled with what assumption to use in their budget on price. Now they don't have to do that."

Mexico executed the series of complicated transactions when oil prices were several dollars a barrel higher than they are now because of the Persian Gulf conflict. Mexico received what now appears to be a favorable price because some purchasers believed at that time that oil prices would rise once war broke out in the Persian Gulf. If oil prices do rise substantially before the delivery date, Mexico will have forfeited some opportunity to reap an additional windfall—a source said the Mexicans had set up the deal to allow them to profit from a price increase, as well.

Because Mexican crude oil is generally of low quality, its value is about $4 less than the world market price for benchmark high-quality crude. At current market levels, Mexican crude is worth an average of $15.76.

With the $17 guaranteed price, Mexico stands to collect an extra $1.24 a barrel when its oil is delivered.

The Mexican arrangement covers more than 100 million barrels of oil, providing a potential profit of at least $125 million at current prices—beyond the profit Mexico makes anyway from crude oil sales.

The Mexicans used the oil futures trading system that has sprung up in recent years involving the New York Mercantile Exchange and the complex related financial instruments offered by brokerages and banks to oil buyers and sellers.

Mexico produces about 2.6 million barrels, or about 5 percent of the world supply, of crude oil a day.

Gaylen Byker, a commodities trading expert at Banque Paribas in New York, said the volume of oil sold by Mexico was so large that it would have distorted the futures market had it hit all at once.

But sources said the transactions were spread over several weeks and at least three different trading houses to minimize the impact. Therefore it had negligible effect on world oil prices.

Sources say the Mexican government, heavily dominated by market-savvy economists, has been considering using the futures market as a large-scale hedging tool for some time.

But the Mexicans may have been motivated by the huge profits they made last fall when world oil prices soared.

Anticipating that prices would tumble, the Mexicans chose to insulate themselves against budget shortfalls.

"The Mexicans have been increasingly market-oriented over the last several years, and also they had a windfall in terms of higher oil prices in the autumn and presumably don't want to give it all back in the spring," said Daniel Yergin, president of Cambridge Energy Research Associates in Boston.

According to the senior Mexican official, "We said, 'Listen, given the uncertainty and given the volatility—it can go to $40 [a barrel] and it can drop to $10—we have a budget here, a budget that we have to cover.' . . . We thought it was going to fall or go below $17.

"We didn't do it to be ahead. The government does not speculate in that sense. Doing nothing is speculative," he said. "It does look now that we are ahead compared to doing nothing. Some days we do not do as well. But we sleep well."

WASH. POST: 3/27/91

Defeated Mexican Party Members, Charging Fraud, Hold City Hall 4 Months

By Edward Cody 184
Washington Post Foreign Service

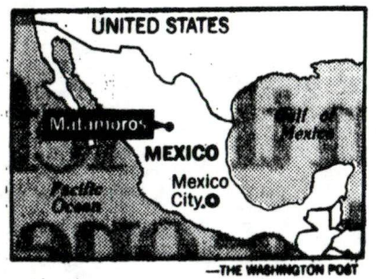
MATAMOROS, Mexico—Behind a barricade of tree trunks, peasant rebels with sun-burnished faces and 10-gallon hats have held the Matamoros city hall for more than four months in an angry revolt against the Mexican government's long-dominant political apparatus.

The uprising in this little farming city in north-central Mexico has attracted scant attention back in the capital, where the government is concentrating on a free-trade agreement with the United States and Canada. But the riled peasants here nevertheless have presented an unwelcome reminder of a growing problem facing President Carlos Salinas de Gortari as he tries to modernize Mexico's economic and political systems.

Mexican opposition parties have made electoral fraud a prime political issue, capitalizing on skepticism about the honesty of voter registration and counting by official organs controlled by the governing Institutional Revolutionary Party—PRI by its Spanish initials. After local elections around the country last year, dozens of town halls like the one in Matamoros were occupied by disgruntled opposition militants accusing the government of vote-rigging.

Most of the protesters eventually were dislodged, some in assaults by army troops. But the bitterness and sense of having been cheated remain strong in many communities, presenting a challenge to the PRI establishment opportunity to its chief opponent, the populist Democratic Revolution Party, or PRD.

In Matamoros, discontent has risen on both sides while the town hall occupation goes on—despite appeals for outside intervention from local PRI leaders and businessmen who complain that the town is falling apart. Meetings between local officials and Coahuila State Attorney Raul Garza Serna failed last Sunday night, dashing hopes the standoff would finally be resolved.



—THE WASHINGTON POST

"It's like in a movie, and there is no authority to restore order," lamented Ernesto Dominguez Ayup, a farmer and businessman who presides over the Matamoros Chamber of Commerce.

According to the state Electoral Tribunal, PRI candidate Gilberto Ordaz Rocha triumphed in city hall elections Oct. 22 by a two-to-one margin over his main opposition, Jesus Camarillo Briones of the PRD. By the official count, it was another chapter in the PRI's 60 years of unbroken domination in local politics.

But when the tribunal announced the results Nov. 22, local PRD militants cried fraud and moved unopposed into city hall that evening.

Only when the PRI leadership agrees to an all-party unity council to govern the city and organize new elections will the occupiers pull out, they told a visitor.

Jose Reyes Garcia, a burly farmer who is among the four dozen PRD rebels holding out in the town hall, said PRI politicians have run this mostly rural municipality of 150,000 long enough. Agricultural subsidies have been handed out on the basis of political loyalty, he asserted, and he charged that PRI leaders falsified the voter registration list by adding fictitious names and having the votes cast for the party.

"We are no longer ready to accept that they rob us of democracy," he declared in an interview. "It does no good to talk to the PRI people here. We know them already. What we are seeking is intervention by the governor."

As Reyes Garcia spoke, several wizened peasants nodded their white cowboy hats in agreement. Tree trunks and branches, bleached by the sun, were piled into a barricade to prevent traffic from approaching, and banners hung from the windows proclaiming the occupation will continue until justice is done.

Several local policemen, whose headquarters lies just a few doors away in the main square, stood quietly nearby. Women sold tortillas in the square.

Mayor Ordaz, 45, a peasant himself, said he won fair and square by about 8,400 votes to 4,000 because of his long record in agricultural affairs. The PRD rebellion, he affirmed, amounts to a "caprice" of peasant leaders unable to accept their repudiation by the voters.

"They believe democracy means they have to win," charged Jesus Contreras Pancheco, a former mayor and current president of the PRI's Municipal Committee.

Contreras, 44, a schoolteacher who also farms, said the Local PRI has asked for intervention from Coahuila State Gov. Eliseo Mendoza Berrueto but that he was reluctant to order force for fear that violence could result.

With help from Contreras, Odaz has set up shop in rented offices and tried to run the town as best he can under the circumstances. But according to Dominquez, the best is not very good.

Business has fallen sharply among the 220 merchants and 200 farm owners who belong to the local Chambers of Commerce, he said. One reason is that wholesalers have stopped coming to the city because police stop their trucks on the outskirts and check for minor vehicular violations in the hope of getting bribes, he added.

Matamoros has a reputation in Coahuila State of being a rough town. State Judicial Police reinforcements have come here several times to help the 15-man local unit, but crime has increased in the power vacuum.

"There is nobody to stop it," Dominguez declared. Five gunmen brandishing AK-47 assault rifles recently chased three local policemen down a main street, laughing uproariously at the stunt, he said, and several wealthy farmers have been kidnapped for ransom.

TUES 10:00 a.m. WALK-THRU

THE WHITE HOUSE
WASHINGTON

2:30

Dan Thomason
~~408-1484~~
408-2700

Schwarzkopf song
Sununu song

Gridiron
Budge ~~Godfrey~~ Sperling
783-7787

pokes Dems for war #1 Domestic
extremely pat. moments #2 War & Peace
poignant closer

12-5
142.50

Bob Bork 6120

Hills + Reilly – meeting w/U.S. env. grps.

env.
labor
safety
} Action Plan/ Blueprint
Rosty + Bentsen
due May 1
nothing official

U.S. – Mex.

Andy Shoyer
7203

5616 3
Don Abelson

Michael Wilson
546-4400