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November 15, 1993

Note for Mark Gearan

cc: William Daley and Christine A. Varney

From: Steve Silverman

Subject: Update on Cabinet Involvement in NAFTA

Attached is a Summary of NAFTA Cabinet Participation as of October 29, 1993. Below is an update of the extensive Cabinet involvement in promoting NAFTA. As you know, the Cabinet has pursued and implemented an eight-point program for advancing the prospects for passage of the Agreement.

TRAVEL As of October 29, the Cabinet had traveled to approximately 40 Congressional Districts on behalf of NAFTA. Since then, Members of the Cabinet have visited approximately 25 Congressional Districts to discuss NAFTA. On a typical trip, a Cabinet Member would visit a facility that exports products to Mexico, meet with business leaders and workers, and conduct media interviews. Frequently, the site visits were to companies that had participated in Products Day at the White House. About 65 Congressional Districts have been visited.

HILL VISITS AND TELEPHONE CALLS As of today, Members of the Cabinet have had approximately 900 telephone calls with Members of Congress regarding the merits of NAFTA. In addition, Members of the Cabinet have conducted approximately 200 meetings on the Hill with individual undecided Members of Congress. Moreover, Members of the Cabinet have hosted lunches and breakfasts for undecided Members of Congress and have appeared at numerous sessions of Hill Caucuses.

REGIONAL MEDIA Members of the Cabinet have participated in an aggressive regional media strategy in which they conduct interviews by telephone with radio stations and newspapers throughout the country. Each week Members of the Cabinet spent approximately two hours conducting regional media interviews. In addition, Members of the Cabinet conducted numerous roundtable interviews with local reporters based in Washington, usually the day before the corresponding opinion leader day.

WHITE HOUSE LEADERSHIP DAYS AND MEALS

Members of the Cabinet have served as briefers in the approximately twenty opinion leader days held at the White House. The Cabinet has also promoted NAFTA at White House and Vice Presidential dinners and lunches.

PROVISION OF DATA The Cabinet Agencies have developed and provided extensive information on various aspects of NAFTA and its impact to the White House, the media and to Members of Congress.

MEMORANDUM FOR MARK GEARAN

FROM: MICHAEL WALDMAN
SUBJECT: **PRESIDENTIAL NAFTA ACTIVITIES**

Here is a partial summary of the President's activities on NAFTA, culled from our calendar over the past two months (public events in **bold**):

September

- 9/14 - **East Room kickoff** (with former Presidents)
- 9/15 - **New Orleans roundtable with export workers**
- 9/23 - Oval Office meeting with **Lee Iacocca**
- 9/29 - lunch with business leaders on NAFTA

October

- 10/1 - Meeting with Members (15 members)
- 10/6 - Meeting with members
- 10/7 - Meeting with members
- 10/13 - Meeting with members
- 10/14 - Meeting with members
- 10/16 - **Radio address**
- 10/19 - Meeting with members
- 10/20 - **NAFTA Jobs and Products Day** (South Lawn)
- 10/22 - Meeting with members
- 10/26 - Meeting with members
- 10/28 - **Speech to Wall St. Journal conference (NYC)**
- 10/29 - **Kennedy Library Rededication (Boston)**
 - **Gillette plant speech to workers (Boston)**

November

- 11/1 - **Satellite town meeting with Chamber of Commerce**
- 11/2 - **East Room event with prominent citizens**
- 11/3 - **Bill transmittal with bipartisan leadership**
- 11/4 - Meeting with members
 - **Question and answer session with workers, Lexmark Inc.**
(Lexington, KY)
- 11/5 - **Q&A with farm families and agriculture radio**
- 11/6 - **Radio address**
- 11/7 - **Meet the Press**
- 11/8 - Meeting with members (2 sessions)
 - Dinner with members

11/9 - Meetings with members (2 sessions)
- **Speech to "opinion leaders" at WH**
- Connie Chung interview
11/10 - Meetings with members (3 sessions)
- **Press conference**
- **Phone call into Denver rally**
11/12 - **Print roundtable with regional media**
11/13 - **Radio address**
- **Member endorsements at Memphis airport**
11/14 - Dinner with undecided Members of Congress
11/14 - **Small business rally**
Peter Jennings interview
11/15 - Meetings with Members
11/16 - **NAFTA event with governors**

- # of appointments
 - larger groups 100 members
 - smaller: 30-35 members on 1 to 1 or 1 to 2
 - last ten days → 70-80 phone calls
 - how much?
 - groups or by phone
- ✓ campaign
 ✓ side arguments
 ✓ Canada

- When he started?
after Labor Day?
 - Mike W.
- Breakdown of Cabinet activity?
 - Steve S.
- Others
 - hee la cocea
 - US NAFTA

Hillgen Richts Matsui
 Kolbe Spinguel Arche

Daley + Frenzel

- Larry King
- Remarks at dinner -
VPOTUS — huge applause

November 15, 1993

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CLOSE HOLD

SUMMARY OF NAFTA CABINET PARTICIPATION

(as of October 29, 1993)

prepared by Stephen Silverman

Members of the Cabinet have been fully engaged in the NAFTA debate since the President's NAFTA East Room speech on September 14th. White House Cabinet Affairs has worked closely with Members of the Cabinet, White House Congressional Relations and the NAFTA Trade Room operation to develop and implement an eight-point strategy to ensure passage of the Agreement.

The Cabinet is working aggressively to promote NAFTA to the American people and to Members of Congress. Each Member of the Cabinet has worked both to advance the major Administration themes on NAFTA and to develop sub-themes, such as the Environment, Manufacturing and Immigration. The Cabinet strategy focuses on discussing the merits of NAFTA with Members of Congress in a variety of forums and communicating the importance of the Agreement to the American people through public appearances and media. The eight-point plan is as follows:

- I. Visits to Targeted Congressional Districts
- II. Meetings With and Phone Calls to Members of Congress (Feedback)
- III. Regional Media from Washington to Targeted Congressional Districts
- IV. Capitol Hill Caucus Participation
- V. State Opinion Leader Days at the White House
- VI. Round-table Interviews with Local Reporters in Washington
- VII. Special Events (Lunches, Border Visits)
- VIII. Providing Data

This Memorandum does not attempt to reflect the extensive NAFTA work of the United States Trade Representative.

I. VISITS TO TARGETED CONGRESSIONAL DISTRICTS

The Cabinet has undertaken three separate, coordinated travel days at which time 6-10 Members of the Cabinet visited targeted Congressional Districts. On or about September 16, Bentsen, Babbitt, Reich, Espy, Pena, Riley, Cisneros, Browner, Tyson, Altman and Bowles travelled on behalf of NAFTA. During the Columbus Day recess, Bentsen, Babbitt, Reno, O'Leary, Reich, Cisneros, Pena, Tyson, Rominger and Rubin travelled. On Monday

October 25, Babbitt, Browner, Albright and Rominger, in addition to the Vice President, participated in press conferences with Governors as they endorsed NAFTA. In addition, Members of the Cabinet have promoted NAFTA as they travel to communities to conduct Agency work. Several Cabinet Members, including Babbitt, Browner, and Tyson, have travelled to specific NAFTA related events.

During each visit, the Cabinet Members visited facilities which currently export goods to Mexico or will show an increase in jobs if NAFTA is passed. In addition, they spoke with business and community leaders and conducted media interviews. Members of the Cabinet have visited approximately 40 Congressional Districts on behalf of NAFTA. **(See attached for travel breakdown, page I-A.)**

II. VISITS AND PHONE CALLS

Using a Whip system in which each Cabinet Officer has been assigned 10 to 20 Members of Congress, we have closely tracked Congressional responses and positions on NAFTA. In addition, Members of Congress expressing a particular concern are contacted by a Cabinet Officer (either by phone or in person) to further discuss the issue. Assignments continue to be made on a daily basis. Members of the Cabinet have had approximately 300 telephone conversations and 75 office visits with Members of Congress. Bentsen, Reich, Pena, Browner, Tyson, Kantor, Christopher, Babbitt, R. Brown, O'Leary, Cisneros, Riley, Aspin, Hubbell, Rominger, and Panetta, have participated in these calls.

During the week of October 25, approximately ten Members of the Cabinet and five Deputy Secretaries each visited five-six "undecided" Members of Congress. **Approximately 50 Members of Congress have been visited this week. (See attached for Hill Visit and Telephone Call breakdown, page II-A.)**

III. REGIONAL MEDIA

Members of the Cabinet devote approximately one hour each week to telephone media interviews into targeted markets. The regional media is intended to influence public opinion by explaining NAFTA, thereby helping to make the Members of Congress more comfortable in their support of the Agreement. Bentsen, Babbitt, R. Brown, Panetta, Tyson, Rubin, Kantor, Altman, Reich, Browner, White, Rominger, O'Leary, Rivlin, and Cutter have conducted regional media interviews. Utilizing this system, Members of the Cabinet have conducted approximately 250 regional media interviews. **(See attached for regional media breakdown, page III-A.)**

IV. CAUCUS PARTICIPATION

Members of the Cabinet have attended numerous caucuses on Capitol Hill to discuss the specific concerns that members of the Caucuses have about NAFTA. However, one-on-one Congressional visits have often proved more effective than caucus visits.

V. STATE LEADERSHIP DAYS

Members of the Cabinet play a key role in the state opinion leader briefings organized by Public Liaison and the NAFTA Trade Room. Seventeen states have had briefings and 15 more states will be briefed before November 17. At each Leadership Day, the Vice President, Bill Daley, and several Members of the Cabinet brief the local leaders on the importance of NAFTA passage. Bentsen, Kantor, Browner, Babbitt, Panetta, Tyson, Bowles, and Rubin have participated in these briefings. **(See attached for Media breakdown, page V-A.)**

VI. ROUND TABLES WITH LOCAL REPORTERS

In order to effectively impact local public opinion, Members of the Cabinet have conducted at the White House approximately seventeen round table interviews with local reporters, usually on the day before the State Leadership Day. Bentsen, Rubin, R. Brown, Tyson, Browner, Babbitt, Bowles, and Altman have participated in these interviews. **(See attached for Round Table breakdown, page VI-A.)**

VII. BORDER VISITS/LUNCHESES

Secretary Christopher hosted a luncheon for Members of the House Foreign Affairs Committee to discuss NAFTA. On October 19, Panetta and Tyson hosted a luncheon for undecided members of the California delegation. On October 26, Bentsen, Reich, R. Brown, Tyson and Ken Brody attended a luncheon at the White House to discuss NAFTA with undecided members of the Congressional Black Caucus. Administrator Browner visited the Mexican Border from California on October 25. Browner, Tyson, O'Leary Albright and Shalala, along with Members of Congress, are expected to visit the Border and Mexico on November 10-12.

VIII. PROVIDING DATA

Departments and Agencies, particularly Treasury, Commerce, Labor, EPA and USTR have provided a substantial amount of analysis and research on the significance of NAFTA passage.

I-A

TRAVEL COMPLETED/TO BE COMPLETED TO TARGETED CONGRESSIONAL DISTRICTS:

TRAVEL BEFORE 10/29

SCHEDULED TRAVEL
as of 10/28

CHRIS- TOPHER			Los Angeles-11/2	
BENTSEN	Chicago-9/16	TX-10/14-10/15	Dallas-10/18 New York,NJ-10/21	California- 11/1 Seattle-11/3
ASPIN				
RENO		Calif-10/7 Mexico-10/11		
BABBITT	San Jose, San Fransisco, L.A.-9/15	Utah-10/8 Arizona-10/10	New York-10/19 New Jersey-10/21 North Carolina-10/22 Caifornia-10/24 Dallas-10/25	California-11/6
ESPY	St. Louis-9/15			Minneapolis-11/1 Louisiana-11/4-5
BROWN, RON	Pittsburgh-9/16		L.A., San Fran -10/13	California-11/6
REICH	New York-9/15	New York-10/8	Cincinnati,OH-10/25	Baltimore-11/5
CISNEROS	Maryland-9/15		Chicago-10/29	Florida-11/10 Atlanta-11/12

PENA	Miami-9/15	Baltimore-10/14	New Jersey-10/18 New York City-10/21 Detroit-10/25 Dallas,Austin-11/1 Houston-11/2	
O'LEARY			Oklahoma-10/12-13	
RILEY	Oklahoma-9/15	N.C.-10/10		Louisville,KY-11/4-5
BROWN, JESSE				
BROWNER	Orlando-9/15		Albuquerque,NM-10/25	Nashville-11/4-5
PANETTA				California-11/6
TYSON	Boston-9/16 Chicago-9/20	Atlanta-10/13	Seattle-10/29 San Francisco-10/30-1	Raleigh-Durham,NC-11/4-5
ALBRIGHT			Denver-10/25	
KANTOR				
BROWN, LEE				
BARRAM				
ALTMAN	Atlanta-9/16			Nashville-11/9
ROMINGER		Kansas-10/14 Mexico-10/18		
BOWLES	Charlotte-9/27	Ohio-10/7 Houston-10/13	Kentucky-10/18 Orlando-10/20	
CUTTER		VA Beach-10/1		

SALLET		L.A.-10/2		
RUBIN		Boston-10/11		
DALEY			Chicago-10/15 Texas-10/16 Boston-10/18	
WIRTH			San Fran-10/18-20	

III-A

REGIONAL MEDIA

DAY	PARTICIPANT	MARKET
9/14	Babbitt	Phoenix Tucson Flagstaff Albuquerque
	Brown	San Fransisco NYC
	Panetta	Oakland San Fransisco Monterey Fresno San Jose Sacramento

	Tyson	St. Louis Kansas City Cleveland
	Rubin	Miami
	Kantor	Boston
9/15	Altman	Milwaukee
	Babbitt	Los Angeles
	Kantor	TONG
	Reich	NYC
9/16	Altman	Atlanta
	Babbitt	San Fransisco San Jose
	Rominger	Detroit

9/20	Reich	Utica, NY Albany, NY Niagara, NY Oswego, NY Olean, NY Buffalo, NY Syracuse, NY Birmingham, NY Herkimer, NY Middleton, NY Lynchburg, VA Norfolk, VA Richmond, VA
9/21	Browner	Wichita, KS Leavenworth, KS
	Rubin	Duluth St. Paul Knoxville Memphis
9/22	Kantor	Nashville
	Panetta	Hartford, CT

9/24	Bentsen	Trenton, NJ Newark, NJ Bergen, NJ Camden, NJ Ashbury, NJ Woodbridge, NJ St. Louis, MO Flat River, MO Sikeaton, MO Sedalia, MO Carthage, MO Kansas City, MO Springfield, MO
9/28	Kantor	Tacoma Seattle
9/29	Espy	Winston/Salem Raleigh/Durham
9/30	Altman	Chattanooga Knoxville Memphis Tampa
	Babbitt	Miami Jacksonville Newark Kansas City
10/4	Babbitt	Lexington Louisville Boise
	Bowles	Little Rock Hartford
	Kantor	Baltimore S.Maryland Charlotte
	Rubin	Richmond Milwaukee Boston
	White	Monroe, LA Kansas City Jackson, MS

10/5	Tyson	San Diego Fresno
10/6	Bowles	New Jersey
	White	Tulsa Ardmore-Ada
10/7	Reich	Boston Springfield Marlboro (MA)
10/8	Kantor	San Diego Fresno Los Angeles NYC Albany Buffalo
10/12	Altman	Cincinnati, Cleveland
	Cisneros	Miami, Seattle
10/14	Altman	North Carolina LA
	Browner	Omaha, NY, Des Moines, Houston, Dallas, Montana
	Reich	Maine NYC Seattle
	Tyson	Chicago Boston
10/15	Altman	Tulsa North Carolina
	Babbitt	San Fransisco Orem, UT Salt Lake City
	Browner	Des Moines Omaha

	O'Leary	Richmond Lynchburg Newport News
	Pena	Houston Baltimore
	Tyson	Omaha
	White	New Orleans Lafayette Ft. Worth Houston
10/18	Reich	TONG: Detroit St. Louis Milwaukee Cleveland Toledo Pittsburgh Chicago Buffalo
10/19	Cutter	North Carolina Tulsa Oklahoma City Richmond, VA
	Pena	New Jersey NYC
	Reich	Seattle
	Rivlin	Hartford NYC
10/20	Altman	California
	Brown	Orange County San Diego
	Cisneros	Tennessee
	Kantor	Salt Lake San Diego
	Reich	Milwaukee Madison Cincinnati

10/21	Kantor	Chicago NYC
	Browner	Boston
10/22	Barram	California
	Brown	Boston Washington
	Browner	NYC
	Reich	NYC and area papers California
	White	Dallas Alabama Tennessee
10/23	Kantor	New Hampshire
10/25	Reich	NYC, NY suburbs San Jose San Fransisco Santa Rosa Los Angeles (including La Opinion)
	Pena	Detroit Houston Los Angeles DOT radio feed on NAFTA
10/26	Brown	North Carolina Washington state
10/27	Pena	Long Beach Oakland Jacksonville Tampa
	Rubin	Columnists (Chris Matthews and Jack Nelson)
10/28	Rubin	South Carolina
10/29	Bentsen	Boston Atlanta

V-A

LEADERSHIP DAYS

DAY	STATE	PARTICIPANTS
10/5	MAINE NEW HAMPSHIRE MASSACHUSETTS	<i>Welcome:</i> HERMAN VICE PRESIDENT <i>Briefing:</i> BENTSEN KANTOR BROWNER <i>Remarks:</i> DALEY
10/6	NORTH CAROLINA	<i>Welcome:</i> HERMAN <i>Briefing:</i> BENTSEN BOWLES DALEY <i>Remarks:</i> VICE PRESIDENT
10/7	NEW JERSEY	<i>Welcome:</i> HERMAN <i>Briefing:</i> BENTSEN RUBIN CAMPBELL <i>Remarks:</i> VICE PRESIDENT

10/13	MARYLAND/VIRGINIA	<i>Welcome:</i> HERMAN <i>Briefing:</i> DALEY PANETTA <i>Remarks:</i> VICE PRESIDENT BROWNER
10/14	GEORGIA/ALABAMA	<i>Welcome:</i> HERMAN <i>Briefing:</i> DALEY BABBITT TYSON <i>Remarks:</i> VICE PRESIDENT
10/20	CALIFORNIA	<i>Welcome:</i> HERMAN <i>Briefing:</i> BROWN BENSTEN DALEY RENO <i>Remarks:</i> VICE PRESIDENT
10/26	ARIZONA	
	TEXAS	
	TENNESSEE	
10/28	KENTUCKY	
	LOUISIANA	
	CONNECTICUT	
	NEW YORK	
11/2	OHIO	
	NEBRASKA	
	ILLINOIS	

11/3	WASHINGTON	
	FLORIDA	
	MINNESOTA	
11/9	UTAH	
	MISSOURI	
	MISSISSIPPI	
	WISCONSIN	
11/10	ARKANSAS	
	KANSAS	
	OKLAHOMA	
	PENNSYLVANIA	
	SOUTH CAROLINA	

VI-A

ROUND TABLES

DAY	STATE	ROUND TABLE
9/28	NEW YORK	BROWN RUBIN
	TEXAS	BENTSEN
9/30	FLORIDA	TYSON BROWNER
10/2	PENNSYLVANIA	DALEY BENTSEN
10/5	NORTH CAROLINA	BOWLES RUBIN
10/12	VIRGINIA MARYLAND	CUTTER DALEY
10/13	ALABAMA	ALTMAN
	GEORGIA	BENTSEN DALEY
10/20	CALIFORNIA	BABBITT BROWNER
10/26	ARIZONA	WHITE PENA
	TEXAS	WHITE PENA
	TENNESSEE	RON BROWN RIVLIN
10/27	KENTUCKY	ESPY RIVLIN
	LOUISIANA	ESPY RIVLIN
10/27	NEW YORK / CONNECTICUT	REICH TYSON

11/1	ILLINOIS	REICH RUBIN
	OHIO	REICH RUBIN
11/2	FLORIDA	KANTOR
	WASHINGTON	RON BROWN RIVLIN
	MINNESOTA	FRENZEL
11/8	UTAH	
	MISSOURI	
	MISSISSIPPI	
	WISCONSIN	
11/9	ARKANSAS	
	KANSAS	
	OKLAHOMA	
	PENNSYLVANIA	
	SOUTH CAROLINA	

File

November 17, 1993

MEMORANDUM TO DAVID GERGEN AND MARK GEARAN

FROM: ALEXIS HERMAN

RE: NAFTA TALKING POINTS: RE OPL ACTIVITIES

The following points compiled from the OPL NAFTA activities that began in July and working with the NAFTA war room should be included in talking points developed around NAFTA activities.

- o From July through this week's House vote on NAFTA, over 3,000 individuals received White House briefings on NAFTA. The briefings have been given by administration officials including the President, Vice President and cabinet secretaries.
- o A series of eleven state opinion leaders briefings were conducted with the Vice President and administration officials for business and environmental leaders from 23 states from October through November. In support of each briefing, extensive local media, developed by our Communications Director and working with Media Affairs, assisted in building momentum and support for NAFTA.
- o A series of industry briefings were considered for organizations and groups representing such industries as transportation, energy, and environment (forest and paper).
- o OPL actively sought and built broad-based support for NAFTA resulting in many prominent industries, organizations and individuals endorsing the treaty including women, African-American, Hispanic and small business groups. Organizations such as the National Association of Women Business Owners, the Executive Leadership Council, the Chrysler Minority Dealers Association and the 5 million-member American Legion endorsed NAFTA.
- o Momentum and support for the treaty was generated through NAFTA-related events such as NAFTA Products Day on the South Lawn; an East Room event with three former Presidents, former Secretaries of State and Nobel Prize economists; and a small business event.

See attachments.

OFFICE OF PUBLIC LIAISON

NAFTA ACTIVITIES REPORT

Date	Event	Briefer(s)
I. State Opinion Leader Briefings		
7/20	State Leaders (50) Briefing on NAFTA	Ambassador Kantor, Carol Browner, Alexis Herman
10/5	New England (Massachusetts, Maine, New Hampshire) State Opinion Leaders Briefing	VPOTUS, Secretary Bentsen, Ambassador Kantor, Carol Browner, Bill Daley, Alexis Herman
10/6	North Carolina State Opinion Leader Briefing	VPOTUS, Secretary Bentsen, Erskine Bowles, Bill Daley, Alexis Herman
10/7	New Jersey State Opinion Leaders Briefing	VPOTUS, Secretary Bentsen, Bob Rubin, Kurt Campbell, Alexis Herman
10/13	Maryland & Virginia State Opinion Leader Briefing	VPOTUS, Leon Panetta, Carol Browner, Bill Daley, Alexis Herman
10/14	Alabama & Georgia State Opinion Leader Briefing	VPOTUS, Secretary Babbitt, Laura Tyson, Bill Daley, Alexis Herman
10/21	California State Opinion Leader Briefing	VPOTUS, Secretary Bentsen, Attorney General Reno, Secretary Ron Brown, Bill Daley, Alexis Herman
10/27	Texas, Tennessee, and Arizona State Opinion Leader Briefing	VPOTUS, Secretary Ron Brown, Secretary Pena, Laura Tyson, Bill Daley, Alexis Herman
10/28	Kentucky, Louisiana, New York, Connecticut State Opinion Leader Briefing	VPOTUS, Ambassador Kantor, Bob Rubin, Bill Daley, Alexis Herman

OFFICE OF PUBLIC LIAISON

NAFTA ACTIVITIES REPORT

Date	Event	Briefer(s)
11/2	Illinois, Ohio, Nebraska	VPOTUS, Secretary Pena, Secretary Espy, Bob Rubin, Alexis Herman
11/3	Florida, Minnesota, Washington State	Attorney General Reno, Secretary Babbitt, Roger Altman, Bill Daley, Alexis Herman
11/9	Final State Opinion Leader Briefing (10 States)	POTUS, Secretary Bentsen, Bill Daley, Richard Feinberg, Alexis Herman

OFFICE OF PUBLIC LIAISON

NAFTA ACTIVITIES REPORT

Date	Event	Briefer(s)
II. Industrial Briefings		
7/22	High-Tech Briefing	Secretary Bentsen, Ambassador Kantor, Erskine Bowles
7/27	Agriculture Briefing	Secretary Espy, Ambassador Kantor
7/28	Chemical Industry Briefing	Secretary Bentsen, Ambassador Kantor
8/3	Briefing for Retailers	Secretary Bentsen, Ambassador Kantor
10/21	Environmental Technology Export Groups	Secretary Ron Brown, Secretary O'Leary, Carol Browner, Alexis Herman
11/4	Agricultural Coalition	Secretary Pena, Secretary Espy, Bob Rubin, Alexis Herman
11/4	Energy Coalition	Secretary O'Leary, Mack McLarty, Leon Panetta, Bob Rubin, Alexis Herman
11/5	Transportation Coalition	Secretary Pena, Leon Panetta, Roger Altman, Alexis Herman
11/9	Lumber and Wood Products	Secretary Brown, Secretary Espy, Bill Daley, Alexis Herman

OFFICE OF PUBLIC LIAISON

NAFTA ACTIVITIES REPORT

Date	Event	Briefer(s)
III. Constituency Group Meeting		
9/13	Oklahoma Chamber of Commerce	Glenn Hutchins/Health Care, Bill Daley/NAFTA
9/14	Dallas Chamber of Commerce	Glenn Hutchins/Health Care, Bill Daley/NAFTA
9/16	Hispanic Business Roundtable	HRC, Ira Magaziner, Bill Daley, Joe Velasquez
9/16	Black Chamber of Commerce	Alexis Herman, Glenn Hutchins/Health, Kurt Campbell/NAFTA
9/20	Briefing for Washington Representatives	Secretary Bentsen, Ambassador Kantor, Bill Daley, Alexis Herman, Rep. Matsui, Rep. Richardson
9/22	Hellenic Council	Jane Hol/NSC, Marshall Adair/State Dept., Marilyn Yager/Health Care
9/28	Briefing for Women's Business Working Group	Bill Daley, Alexis Herman, Doris Matsui
9/28	Denver Community Leadership	Glenn Hutchins/Health Care, Kurt Campbell/NAFTA
9/29	Briefing for Associations	Bill Daley
9/30	Briefing for NAWBO	Laura Tyson, Glenn Hutchins/Health Care, Kurt Campbell/NAFTA

OFFICE OF PUBLIC LIAISON

NAFTA ACTIVITIES REPORT

Date	Event	Briefer(s)
10/5	Joint Automotive Supplier Governmental Action Council	VPOTUS, Secretary Bentsen, Bill Daley
10/6	San Antonio Chamber of Commerce	Kurt Campbell, Glenn Hutchins
10/7	American Warehouse Association	Kurt Campbell, Rick Kronick
10/19	Computerland Washington Summit (CEO's)	Mike Nelson, Glenn Hutchins, Kurt Campbell
10/22	Economic Leadership Council Briefing	Kurt Campbell
10/22	Italian American CEO's	Mack McLarty, Laura Tyson
10/26	Hartford Chamber of Commerce	Roger Altman, Kurt Campbell
10/29	Minority Business Briefing	Secretary Ron Brown, Mozell Thompson, Kurt Campbell
11/10	Women Business Owners Briefing	Secretary Shalala, Secretary O'Leary, Ambassador Albright, Administrator Browner, Roger Altman
11/10	Chrysler Minority Automobile Dealers	Rufus Yerxa, Bill Daley, Steve Hilton

OFFICE OF PUBLIC LIAISON

NAFTA ACTIVITIES REPORT

Date	Event	Briefer(s)
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11/12	Hispanic Leaders Briefing	Attorney General Reno, Secretary Pena, Leon Panetta, Bill Daley, Richard Rominger
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OFFICE OF PUBLIC LIAISON NAFTA ACTIVITIES REPORT

Date	Event	Briefer(s)
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IV. Special Events

9/14	NAFTA Announcement East Room	POTUS, Presidents Ford, Nixon, Carter and Bush
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9/15	Economic Speech/Press Conference	POTUS
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10/20	Products Day	POTUS
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11/15	Small Business Event	POTUS
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CHRYSLER MINORITY DEALERS ASSOCIATION

27777 Franklin Road
Southfield, MI 48034
(313) 350-0580

November 16, 1993

Ed Fitzpatrick
President
Theresa Jones
Treasurer
Elenae Henry-Farhurst
Secretary
Bill McIntosh
Past President
Dale Early
V.P. for Jeep/Eagle
Division
Winston Pittman, Sr.
V.P. for Dodge
Division

Directors
Larry Hovell
Sanford Woods
Steve Rojas
H. Steve Harrell
Dorian Boyland
Monti Long

Director of Chrysler Credit
Rushel Dupree

Dealer Development
Cecil Ward

Dealer Operations
Sam Yocca

Cooper
Linsburg, Feldman and Bress
General Counsel

Manon Brown
Executive Administrator

Mr. Steve Hilton
Deputy Assistant to the President
122 Old Executive Office Building
Washington, DC

Dear Mr. Hilton:

The Chrysler Minority Dealers Association, in its endeavors to rally congressional support for NAFTA, wish to give you an update of our activities since we last met on Wednesday, November 10, 1993.

Currently, we are running advertisements in several newspapers in minority communities. We have delivered information concerning our views to a number of Representatives who we have targeted as being "undecided" or "leaning" toward NAFTA. Also, we have sent additional information to Congressional Black Caucus members here and their district offices.

We anticipate that our views on NAFTA from the standpoint of minority businessmen and women will be considered by these individuals in the upcoming vote. The CMDA would like to thank you for your valuable input at our last meeting and look forward to working with you on future issues.

Sincerely, (



Ed Fitzpatrick
President
Chrysler Minority
Dealers Association

cc: A.J. Cooper
General Counsel

file: NAFTA

MEMORANDUM FOR MARK GEARAN
ANDRE OLIVER

FROM: ROBERT KYLE *MWP*
MICHAEL W. PUNKER *MWP*

RE: WEEKEND READING ON NAFTA

DATE: APRIL 9, 1993

You asked for "weekend" reading material on the NAFTA. While this may be a sad statement about your weekends, attached are:

- (1) A "Summary of the North American Free Trade Agreement;"
- (2) "Gee-Whiz" Facts about the NAFTA. These facts are not designed to be balanced, but do give a good flavor of the positive arguments;
- (3) A chapter from a study on the NAFTA by the non-partisan Institute for International Economics. This is one of the most frequently cited documents on the NAFTA.

Let us know if you want more.

SUMMARY OF THE NORTH AMERICAN FREE TRADE AGREEMENT

TARIFFS

- * **Transition Periods:** Agreement eliminates all tariffs between the United States and Mexico over 0-15 years, with the most sensitive products receiving the longest transitions. For most, the phaseout will occur with equal percentage cuts each year.
- * **Sensitive Products:** Tariffs on some of the most sensitive U.S. products -- household glass, footwear, ceramic tiles -- will be eliminated over the longest 15-year period. In contrast, the longest period for removal of Mexican tariffs on sensitive items like lumber and furniture will be 10 years -- except for some farm products, which may be as long as 15 years.
- * **Key Texas Exports:** Mexican tariffs on many leading high-tech exports -- including computers, semiconductors, and telecommunications equipment -- will be eliminated either immediately or over five years.

AGRICULTURE

- * **All Barriers Eliminated:** All agricultural barriers will be removed by the end of a 15-year transition period. Sensitive products (orange juice, sugar, peanuts, some vegetables) receive a 15-year phase-out. About one-half of agricultural trade will be duty-free once the agreement takes effect.
- * **U.S. Import Sensitive Products:**
 - (1) **Fruits and Vegetables:** These received the longest transition periods during their peak growing seasons (*e.g.*, 15 years for cantaloupe and honeydew; 10 years for grapefruit and watermelon).
 - (2) **Peanuts:** Current peanut quota to be eliminated over 15 years. To get preferential treatment, peanut butter must be made of U.S. or Mexican peanuts.
 - (3) **Sugar:** Mexico's current sugar quota will be increased in the first six years only if Mexico becomes a net sugar exporter, which U.S. negotiators believe is unlikely. By the end of 15 years, the quota will be eliminated and it will be free trade. To address concerns about third-country transshipment through Mexico, Mexico will adopt border protection equal to the U.S.

* U.S. Export Interests:

- (1) Corn: Mexico will eliminate its import licenses and tariffs, substituting a tariff rate quota (e.g., imports up to a certain level enter duty free, and above that face very high tariffs). Tariffs and quota levels then to be phased out over 15 years.
- (2) Wheat: Same as corn, except phase-out is 10 years.
- (3) Grain Sorghum: Immediate elimination of Mexico's 15 percent tariff.

ENERGY

- * Government Procurement: PEMEX (the petroleum monopoly) and CFE (the electricity monopoly) will be required to open 50 percent of their procurement to competitive bidding immediately, and to increase that to 70 percent by the eighth year (i.e., they may set aside only 30 percent of their total procurement). After 10 years, the percentage set-aside will be replaced with a dollar value set-aside: PEMEX and CFE will be able to withhold only \$300 million in annual procurement (or less than four percent of their estimated annual procurement.)
- * Natural Gas: Agreement states U.S. companies will be able to negotiate directly with Mexican end-users, but PEMEX will retain the right to veto the terms of the contract. The value of this to U.S. producers is still not clear.
- * Electricity: U.S. companies will be able to own and operate cogeneration plants (i.e., plants facilities producing electricity as a byproduct) and to produce electricity for their own use. Any excess must be sold to CFE. Independent power producers (i.e., facilities with primary purpose of producing energy) may also own and operate generating plants, but may engage in cross-border trade. CFE retains veto over terms of contracts.
- * Petrochemicals: Agreement eliminates restriction on foreign investment for 14 of 19 currently restricted petrochemicals.

AUTOS

- * Mexican Steps: Mexico to eliminate all auto barriers over 10 years, including: (1) 20 percent tariff on autos; (2) 36 percent domestic content requirement; (3) trade balancing requirement (which now require \$2 in auto exports for every \$1 in auto imports and a 1:1 ratio for auto parts). Twenty percent tariff on light trucks has a five-year phase-out.

- * **U.S. Steps:** United States to eliminate its 2.5 percent duty on autos immediately. Will phase out its 25 percent tariff on light trucks over five years, a fairly rapid transition on a high tariff. Could be controversial.
- * **NAFTA Content:** To ensure sufficient NAFTA content contained in cars receiving duty-free treatment, current 50 percent content requirement of U.S.-Canada trade agreement will gradually be raised to 62.5 percent. This is less than the 65 percent level the United States sought, but GM and Chrysler have endorsed the agreement, while Ford has yet taken no position. UAW opposes.

TEXTILES

- * **Tariffs/Quotas:** Immediate elimination of U.S. quotas on products that meet rule of origin (Mexico has none) and up to a 10-year phase-out of tariffs in both countries.
- * **Rule of Origin:** To qualify for above treatment, product needs to be made of yarn originating in a NAFTA country (*i.e.*, yarn-forward rule of origin). This was the most important element of the agreement for the textile and cotton industries, who feared fabric inputs from Far East producers.
- * **Non-NAFTA Products:** Products not meeting above rule - but meeting normal Mexican rule of origin - receive gradual elimination of U.S. quotas.

FINANCIAL SERVICES

- * **Banks:** For the first time, permits U.S. banks to operate in Mexico, but only through subsidiaries (not branches), which will require greater capitalization. Mexico retains a \$10 million minimum capitalization requirement on subsidiaries, which could be a restriction to smaller U.S. banks. U.S. banks to be limited to collective eight percent share of the Mexican market when NAFTA takes effect, rising to 15 percent by the year 2000, when the cap will be lifted. (U.S. industry sees this as little limitation as it has, for example, only four percent of Canadian market currently.) Each bank limited to 1.5 percent during the transition. Similar caps apply in the securities sector.
- * **Insurance:** Agreement phases out current Mexican restriction that U.S. insurers may control only 49 percent of Mexican insurance firms; U.S. insurers already in Mexico may obtain majority control in 1996, while those not already there may do so in 1998.

INVESTMENT

- * **Covered and Excluded Areas:** Key areas where investment liberalized in Mexico include most petrochemicals, mining, construction, auto parts, and accounting -- some immediately and other in five years. Each country must explicitly list those sectors where restrictions on foreign investment will remain in place (e.g., energy in Mexico, broadcasting in the United States), including any State or provincial measures. Agreement contains language protecting U.S. investors against discrimination, government expropriation, and imposed conditions such as local content requirements.
- * **Screening of Investments:** Mexico retained right to screen (i.e., block) certain foreign investments, pointing to similar barriers retained by Canada in the U.S.-Canada agreement. Only acquisitions of \$25 million or more may be screened initially, rising to \$150 million minimum in year 10 (the same level as in Canada). This screening will apply only to acquisitions, not to new "greenfield" investments.
- * **Right of Arbitration:** For the first time, American investors who have disputes with the Mexican Government will be able to resolve them through impartial arbitration -- rather than having to go through the Mexican judicial system.

LAND TRANSPORT

- * **Trucks/Buses:** Within seven years, U.S. and Mexican trucks and buses will be able to operate in the other's country. But trucks are to have access only for cross-border shipments, while buses will be able to operate both cross-border routes and routes within each other's domestic markets (point-to-point routes).
- * **Rail:** Agreement codifies liberalization Mexico has already undertaken. (U.S. companies can market their services in Mexico, operate trains with their own locomotives, construct terminals, and finance rail infrastructure.) Other activities will continue to be reserved to Mexican Government.
- * **Investment:** U.S. companies may gain controlling ownership in Mexican truck and bus companies after seven years, full ownership after 10.

MAQUILADORAS

- * **Duty Drawback Generally:** Duty drawback helps make the maquiladora program work. Drawback permits companies to receive a rebate on tariffs paid on foreign inputs, if the final product is then exported. A Mexican maquila that pays tariffs on imports of U.S.-made inputs has the tariffs rebated when it ships the final product to the United States, making maquila production attractive. Drawback makes no difference on U.S.-Mexican trade once tariffs are eliminated, but does still encourage Mexico to import Japanese inputs for final product export to the United States.
- * **Drawback Provisions:** The agreement eliminates drawback for goods meeting NAFTA rule of origin requirements and limits it for non-NAFTA qualifying goods. This was done in an attempt to prevent Mexico from becoming an export platform for Japan and other countries to the U.S. market. But some maquilas may object, as it raises their costs.
- * **Sales into Mexico:** Partly to offset this reaction, agreement will permit maquila sales into the Mexican market once the drawback program ends.

ENVIRONMENT

- * **Health/Safety Standards:** U.S. Federal or State environmental, health, and safety laws will be permitted -- even if they are tougher than Mexican laws -- as long as two conditions are met: (1) they do not discriminate against imports; and (2) they can be supported on a sound scientific basis.
- * **U.S.-Mexico Commission:** U.S. and Mexican officials are completing separate talks to establish a binational environmental commission to examine, among other things, Mexican environmental enforcement. The commission will not have its own enforcement powers, as some environmentalists want.
- * **Other Provisions:** Agreement specifies that certain listed international environmental agreements take precedence over NAFTA. Also, NAFTA dispute settlement panels may be advised by environmental experts in relevant cases.
- * **Provisions Not In Agreement:** Agreement contains no provisions on funding for border cleanup and improved environmental enforcement by Mexico, issues left for subsequent negotiations or U.S. implementing legislation.

SAFEGUARDS

- * **Generally:** Trade agreements include "safeguard" measures permitting countries temporarily to limit imports when import surges injure a domestic industry. The NAFTA addresses both bilateral and global safeguard.
- * **Bilateral Safeguard:** If imports surge as a result of a NAFTA tariff reduction, a NAFTA country may for up to three years reimpose the normal MFN duty rate on imports from another NAFTA country. Only applies during transition periods.
- * **Global Safeguard:** If the United States decides to impose safeguard restriction on all countries (e.g., pursuant to its GATT rights), imports from Mexico and Canada will not be included unless they account individually for a substantial share of total imports and they contribute importantly to the domestic industry's injury.

DISPUTE SETTLEMENT

- * **Trade Disputes Generally:** For most disputes between NAFTA parties, binational panels may be created. Panel recommendations are not binding, but if agreement is not reached after a panel recommendation, a country may retaliate.
- * **Antidumping/Countervailing Duty Cases:** Disputes involving these cases will be heard by special binational panels whose decisions will be binding. If requested by either party, these panels substitute for a country's normal judicial review of such decisions. This process is similar to that established in the U.S.-Canada free trade agreement. In return for this special process, Mexico agreed to make changes in its law to provide due process in such cases, similar to that provided by the United States and Canada.

"GEE-WHIZ" FACTS ABOUT NORTH AMERICAN TRADE

- Canada is our largest and Mexico is our third largest trading partner. Three way trade amounted to \$240 billion in 1991.
- Since Mexico began to lower trade barriers in 1986, the U.S. trade balance with Mexico has improved by \$7 billion, from a deficit of \$4.9 billion to a surplus of \$2.1 billion in 1991. This surplus is projected to reach \$8 billion in 1992.
 - * U.S. exports to Mexico have increased by 168 percent, from \$12.4 billion in 1986 to \$33.3 billion in 1991. In 1992, U.S. exports are projected to reach \$44 billion. *70 and 1986-92*
 - * U.S. agricultural exports to Mexico have risen by 180 percent, from \$1.1 billion in 1986 to \$2.98 billion in 1991.
 - * Services exports have increased by 48 percent, from \$3.5 billion in 1987 to \$8.3 billion in 1991.
- 75 percent of U.S. exports to Mexico are manufactured goods. Mexico has now surpassed Japan as the second largest market for U.S. manufactured goods.
- The average Mexican spends \$340 year on U.S. products, outpacing the average European who spends \$284 and almost matching the average Japanese (with ten times the income) who spends \$400.
- The average Mexican buys U.S. goods and services with 15 cents of every dollar earned and 70 cents of every dollar spent on imports.
- Using a rule of thumb of 22,000 for every \$1 billion in net exports, the improved U.S. trade balance with Mexico has created net 283,800 new U.S. jobs.
- Leading economic studies have concluded that a NAFTA would increase net U.S. employment by 62,000 jobs (U.S. Department of Labor), 175,000 jobs (Institute for International Economics), and 150,000 jobs (Professor Dornbusch of MIT).
- Export-related U.S. jobs pay 17 percent more than the average U.S. wage.
- Since 1987, U.S. exports to Mexico have grown by 23 percent, as compared to an annual rate of 14 percent for the rest of the world.
- From 1986 to 1991, U.S. exports to Mexico have increased by 168, over twice as much as imports from Mexico at 80 percent.
- From 1987 to 1991, exports to Mexico increased in 47 states. Exports to Mexico increased by over 100 percent in 31 states and grew faster than exports to the rest of the world in 39 states.

NAFTA Fact Sheet

An Overview of U.S. - Canada - Mexico Trade

- Mexico is our third largest trading partner, Canada our first. Mexico has a growing consumer population that now totals some 88 million.
 - Two-way trade between the U.S. and Mexico exceeded \$64 billion in 1991, and \$176 billion between the U.S. and Canada.
 - Between 1980 and 1990, U.S. exports to Canada and Mexico more than doubled, from \$55.3 billion to \$111.4 billion.
 - U.S. exports to Canada and Mexico have grown 56% faster than our exports to the rest of the world.
- According to the Institute for International Economics, a NAFTA will increase U.S. exports by as much as \$10 billion annually.
- Data from the U.S. Department of Commerce indicates that for every \$1 billion in additional U.S. exports, 22,000 jobs are created.
 - An estimated 2.3 million U.S. jobs are currently related to exports to Mexico and Canada.
 - Over 650,000 U.S. jobs are related to U.S. exports to Mexico; half of these were created in the last five years. The Institute for International Economics predicts that the number could swell to over 1 million jobs by 1995.
- U.S. exports have accounted for over 40% of the total U.S. economic growth since 1986.
 - Economists predict that by the year 2000 international trade will account for almost one-third of the U.S. GNP.
 - In 1990, exports proved to be the mainstay of the U.S. economy, accounting for nearly all (88%) of the growth portion of the GNP.
 - Wages for jobs related to exports are 17 percent higher than the average U.S. wage.

The Potential of the Mexican Market

- Mexico is the fastest growing major U.S. export market.
 - U.S. exports to Mexico are growing twice as fast as imports and have grown faster every year since 1986.
 - Between 1986 and 1991, U.S. exports to Mexico increased nearly three-fold -- from \$12.4 billion to \$33.3 billion. For 1992, the figure is projected to be \$44 billion
 - U.S. exports to Mexico are almost twice our exports to Korea and Taiwan, three times our exports to Hong Kong, four times our exports to China and five times our exports to Brazil.
 - U.S. exports to Mexico have grown at an annual average rate of 23% since 1987. (U.S. exports to the EC, Japan and the rest of the world as a whole have grown at an annual average rate of only 14% over the same period.)
 - Between 1987 and 1990, state exports to Mexico increased in 45 of the 50 states.
 - Over 75% of our exports to Mexico are manufactured goods. Mexico has now surpassed Japan as our second largest market for these goods.
 - As a result of Mexico's unilateral program to liberalize its markets, U.S. exports to Mexico increased 17% between 1990 and 1991 alone. This strong U.S. performance resulted in our first trade surplus with Mexico in a decade. For 1992, this surplus is projected to be in excess of \$8 billion.
- As Mexico grows more, it will import more.
 - Mexico's 88 million consumers are eager to purchase U.S. goods, and their ranks are swelling.
 - By the year 2000, Mexico will have 100 million consumers.
 - The U.S. has a 67% share of Mexico's import market, compared with a 21% share of Japan's import market, and a 17% share of the EC's import market.
 - Per capita, Mexico imports \$295 worth of U.S. goods, as compared to the EC's per capita intake of \$266 worth of U.S. goods and Eastern Europe's per capita intake of \$9 worth of U.S. goods.

- Seventy cents of each import dollar spent in Mexico is spent on U.S. goods.
- Mexico is a valuable trading partner, not an economic adversary.
 - Mexico's GNP of approximately \$255 billion is about the same size as Florida's.
 - The Mexican economy is roughly 1/25 the size of the U.S. economy, and its exports only amount to 6% of U.S. imports.
 - A NAFTA will not flood the U.S. with goods from Mexico. It can only increase access for U.S. goods in the Mexican market.

Job Creation for the United States

- A NAFTA will ensure that the special benefits of trade between the countries of North America reach the workers of North America. Secure access to the critical Mexican and Canadian markets for U.S. exports creates jobs in the U.S.
- Since Mexico joined GATT and reduced its tariff rates in 1986, the resulting increase in U.S. exports to Mexico has added as many as 320,000 new jobs to our economy, according to Ambler H. Moss Jr. of the University of Miami's North-South Center.
- The overwhelming majority of economic studies show that a NAFTA would in fact have a positive impact on U.S. employment.
 - A May, 1992, U.S. International Trade Commission survey of NAFTA studies found a "surprising degree of unanimity" among the studies in predicting job gains for all three countries.
 - Professor Rudiger Dornbusch of the Massachusetts Institute of Technology, in testimony before the Senate Finance Committee, estimates that the U.S. would gain an extra 150,000 U.S. jobs from free access to the Mexican market.
 - Research conducted by the U.S. International Trade Commission confirms that a NAFTA will create jobs for Americans.
 - The non-partisan Institute for International Economics places job creation at 130,000 net U.S. jobs and 600,000 net Mexican jobs. So a NAFTA will have major benefits for Mexico and substantial benefits for the U.S. as well.

- The history of our recent free trade agreement with Canada demonstrates the positive effect a NAFTA would have on U.S. employment.
 - Wesley Smith, an Inter-American policy analyst at the Heritage Foundation, estimates that more than 264,000 new U.S. jobs have been created since the signing of a free trade agreement with Canada in 1989.
- Recognizing that some employers and workers will face adjustment pressures, economic transition measures are necessary.
 - Longer transition periods (up to 15 years) have been negotiated for import sensitive sectors.
 - Safeguard mechanisms have been established to allow quick response to any injurious import surges.
 - Strict rules of origin have been defined to ensure the benefits of a NAFTA accrue only to the United States, Mexico and Canada.
 - On August 24, 1992, a comprehensive worker adjustment initiative was announced. The proposed program reserves \$335 million per year specifically for NAFTA-related dislocations, with up to double that amount available if necessary. The program provides a flexible and comprehensive array of training and support services available to dislocated workers. These provisions exceed the amounts needed for even the worst-case scenarios of dislocation.

The Environmental Impact of a NAFTA

- The NAFTA breaks new ground in international trade agreements by including provisions to protect and improve the environment.
 - Sustainable development is embraced and made an express commitment by the countries.
 - International environmental agreements (such as those to prevent trade in endangered species and to protect the ozone layer) take precedence over the NAFTA.
 - The NAFTA permits countries to adopt environmental standards and measures which are even stricter than existing international standards.
 - The agreement provides for "upward harmonization" of environmental standards among the three countries.

- The positive environmental effects of the NAFTA have been recognized by experts.
 - Professor Paul Krugman of the Massachusetts Institute of Technology concluded that "it is virtually certain that the NAFTA will help Mexico's environment."
 - William Reilly, director of the Environmental Protection Agency, hailed the NAFTA as "the most environmentally sensitive trade agreement ever ... It will be seen as a model for other countries."
- Economic growth and safe, sound environmental practices can go hand in hand, if well managed. A NAFTA would contribute to environmental progress in Mexico and increased U.S.-Mexico cooperation on environmental issues.
- From the outset, the U.S. negotiators were directed by the President to insure that a NAFTA would not weaken U.S. environmental or health and safety standards.
- A number of recent studies conclude that a NAFTA will not only increase economic growth in Mexico but will provide Mexico with the resources and tax revenues needed to fund environmental and infrastructure development.
 - In its "Review of the Environmental Effects of a Free Trade Agreement with Mexico" the Office of the U.S. Trade Representative (USTR) concludes that a NAFTA may actually encourage Mexican industry to shift away from maquiladora production, reducing stress on the border environment.
 - An analysis of the NAFTA by two Princeton University economics professors, Gene M. Grossman and Alan B. Krueger, concludes that economic growth tends to alleviate pollution problems once a country's per capita income reaches \$4,000 to \$5,000 U.S. dollars. Mexico, which currently has a per capita GDP of \$5,000, is at a critical point in its development where further growth should stimulate greater political pressure for environmental protection.
- Released on February 25, 1992, the "Integrated Environmental Mexico-U.S. Border Plan" was developed jointly by the EPA and the Secretariat of Social Development (SEDESOL), the EPA's Mexican counterpart.
 - The Plan represents a ten year commitment by both the U.S. and Mexico to step up efforts to speed environmental improvements along the border. The U.S. intends to implement the plan regardless of the outcome of negotiations over a NAFTA.
 - The Plan calls for over \$1 billion in government expenditures over the next three years. In the first year alone, the U.S. and Mexico will spend over \$300

Hufbauer + Schott, *Inst. for Int'l
Economics*, 1992.

NAFTA: Overview and National Objectives

On 11 June 1990, US President George Bush and Mexican President Carlos Salinas de Gortari agreed to pursue the negotiation of a free trade agreement, or FTA, between their two countries. Exactly one year later talks began, with a third country, Canada, also taking a seat at the negotiating table. Even before the talks started, the process of crafting a North American Free Trade Agreement (NAFTA) was transformed from an incremental approach of melding separate bilateral FTAs between individual countries into a full-fledged trilateral negotiation.

The NAFTA negotiations represent a further step in a gradual process of economic integration that has been under way implicitly in North America for quite some time. The foundation stone was laid in 1965 with the Canada-US Auto Pact. A few years later, the maquiladora boom began to link the northern cities of Mexico with the US industrial economy.¹ Since 1985, extensive negotiations have produced a series of bilateral trade pacts that have lowered trade barriers in the region and provided institutional underpinnings for the prospective North American economic alliance. The most important accord has been the Canada-US FTA, which sets many useful precedents for the NAFTA.

In addition, both the United States and Canada have concluded bilateral framework agreements on trade and investment with Mexico. The United States and Mexico signed three major accords between 1985 and 1989:²

- The Understanding on Subsidies and Countervailing Duties (1985) was in essence a surrogate for Mexican participation in the subsidies code of the General Agreement on Tariffs and Trade (GATT). Mexico agreed to undertake reforms of its subsidy programs in exchange for an agreement by the United States to apply an injury test in countervailing duty cases involving Mexican products.

1. Maquiladoras are Mexican "in-bond" production facilities that process or assemble imported components for export, primarily to the United States (see chapter 5).

2. In addition, in 1986 the United States negotiated on behalf of other GATT signatories the Mexican protocol of accession. For a summary of these agreements see US International Trade Commission (1990b, chapter 2); and Morici (1991, 36-39).

- The Framework of Principles and Procedures for Consultation Regarding Trade and Investment Relations (1987) established a consultative and dispute settlement mechanism for bilateral trade problems and an "immediate action agenda" for negotiations on bilateral trade and investment issues in goods and services sectors; these negotiations resulted *inter alia* in sectoral accords on steel and textiles.
- The Understanding Regarding Trade and Investment Facilitation Talks (1989) initiated a bilateral round of negotiations on a broad range of issues, including difficult intellectual property questions.

Canada–Mexico trade negotiations have proceeded on a parallel but slower track, reflecting the smaller level of direct economic transactions between those two countries (only about \$2 billion in total trade in 1989). In March 1990 Canada and Mexico signed 10 separate accords to improve bilateral consultations and data sharing on issues ranging from agricultural trade to environmental cooperation to such nontrade areas as extradition and drugs. The package also included a Framework for Trade and Investment Consultations that follows in many respects the 1987 US–Mexico accord.

Closer integration of the American, Canadian, and Mexican economies would yield a market as large and populous as the European Community (EC) and the European Free Trade Association (EFTA) combined: in 1989 the EC and EFTA countries had a combined GNP of \$5,784 billion and a population of 358 million, compared with a combined Canada–Mexico–US GNP of \$5,932 billion and a population of 357 million. Of course, the North American region is dominated by the US economy, which accounts for more than 85 percent of the regional output and nearly 70 percent of its population (table 1.1). By comparison, the largest single member of the European groups, the (combined) German economy, accounted for only 25 percent of combined EC–EFTA GNP in 1989, and 22 percent of the combined population. The appeal of a North American economic alliance is *not* that it would greatly embellish the existing trading bloc known as the United States, but rather that it holds open the prospect for substantial synergy among the three economies that could generate important income and employment gains and enhance the international competitiveness of firms throughout the region.

The last point is particularly important. All three countries run large current account deficits, have accumulated large foreign debts, and consequently need to pursue an export-led growth strategy. Clearly, each country cannot solve its problems on the backs of its neighbors; all three countries need to improve the efficiency and productivity of their labor forces and industries to compete more effectively against foreign suppliers in markets at home and abroad. This is the most important objective of the NAFTA.

Table 1.1 United States, Canada, and Mexico: selected economic indicators, 1980-89

	GNP 1989 (billions of dollars)	GNP per capita		Population		Average annual inflation rate 1980-89 (percentages)
		1989 (dollars)	Average annual growth rate 1980-89 (percentages)	1989 (millions)	Average annual growth rate 1980-89 (percentages)	
United States	5,201	21,057	1.9	247	1.0	4.7
Canada	530	20,385	2.1	26	1.0	5.8
Mexico	201	2,393	-0.9	84	2.4	69.0

Sources: United Nations, *World Economic Survey*, 1989; International Monetary Fund, *World Economic Outlook*, April 1989; *International Financial Statistics*, Yearbook 1989 and September 1991; World Bank, *Social Indicators of Development*, 1989 and 1990. World Bank and International Monetary Fund data adapted with permission.

Moreover, the three economies are already closely linked by an extensive network of trade and investment, which makes the task of further negotiations somewhat easier. Both Canada and Mexico conduct between two-thirds and three-quarters of their trade with the United States, and the United States conducts about one-quarter of its trade with the two of them combined. The combined intraregional trade of the three countries represents about 40 percent of their total exports (by comparison, intraregional trade represents 60 percent of the exports of the EC member countries; Schott 1991). In addition, both Canada and Mexico host substantial US direct investment, while the United States benefits from substantial Canadian direct investment and hosts large sums of Mexican portfolio and real estate investment (much of which represents flight capital). The NAFTA reforms would further expand the trade and investment linkages among firms in the region.

Economic policies in the three countries are propelling closer economic integration, driven by common interests in deregulation and privatization on the domestic front, and common needs to deal with large current account deficits on the external front. A NAFTA would reinforce those existing trends. However, it would not result in the degree of deep integration already seen in the European Community. The implications of the prospective pact are significant, but they fall well short of a common market.

NAFTA: Integration of the Lesser Kind

Juxtaposed against the European Community, which is broadening and deepening the integration of its 12 member states and expanding the scope of its trade preferences with both the EFTA and the Eastern European countries, the NAFTA is often seen as North America's response to the European trading bloc. Such a comparison overlooks the idiosyncratic forces at work in Europe and North America and blurs numerous distinctions. Unlike in Europe, circumstances in North America have led the United States, Canada, and Mexico to pursue a free trade area rather than a more comprehensive economic union.³

A first major difference between the two forms of integration is that members of an economic union cede significant national sovereignty over economic affairs to a regional body. In the European Community, trade policy toward the rest of the world is implemented on a regional basis out of Brussels; the European Court of Justice handles internal commercial disputes arising from the implementation

3. A form of integration intermediate between a free trade area and an economic union is that of a customs union, with a common external tariff. In its early years the European Community was a customs union (often called the European Common Market). In our view, it will take many years before the NAFTA partners agree on a common external tariff.

of the Treaty of Rome; a single currency and a European central bank have been proclaimed as goals for 1999; and negotiations are proceeding toward closer political integration. Unlike the countries that have more recently joined the Community (Greece, Spain, and Portugal) or that now want to join (Austria and Sweden head the list), none of the three countries negotiating toward a NAFTA are willing to cede the requisite sovereignty to establish comparable regional bodies, or to provide large fiscal transfers among the members to cement the alliance.

Economic unions are rarely successful without the glue of intraregional subsidies, as the European experience amply demonstrates.⁴ In contrast, the North American approach is one of "trade, not aid." Except for funds from the international financial institutions, direct subsidies to Mexico face substantial budgetary and political constraints in both the United States and Canada (witness the sharp criticism of alleged interest rate subsidies on the zero-coupon bonds offered to Mexico in 1989 by the US Treasury in the context of the Brady Plan).

Second, unlike the European Community, the NAFTA is likely to follow the precedent of the Canada-US FTA and not seek to provide a formal system of free labor mobility.⁵ The FTA contained only sparse provisions that facilitate the temporary cross-border entry of business persons; coverage essentially is limited to the temporary entry of white-collar workers (who pose little immigration problem in any event). These limited provisions chart the outer boundary for the NAFTA talks. For the foreseeable future, immigration from Mexico to the United States will be dominated by illegal workers in search of better wages.

Large income disparities between prospective members make the process of economic integration more difficult and augment adjustment problems. The European Community spanned a wide divide when it incorporated Spain and Portugal, countries whose per capita GNP levels at the time of accession (January 1986) were \$4,860 and \$2,250, or 40 percent and 19 percent, respectively, of West German per capita GNP (World Bank 1989). By comparison, however, the inclusion of Mexico in the NAFTA poses an even greater challenge. Mexico's

4. In the Community, agricultural subsidies under the Common Agricultural Policy initially served this purpose. More recently, Greece, Spain, and Portugal received substantial regional aid for industrial development as part of the terms of their accession to the Community, and the former German Democratic Republic is receiving vast assistance in the context of German reunification.

5. Note, however, that labor mobility in North America is in many respects freer than in the European Community, for two reasons: European employment practices make it harder to hire workers because it is harder to fire them; and the limited availability and high cost of housing in Europe create implicit barriers to movement.

per capita GNP is only about 12 percent that of the United States and Canada combined.⁶

Furthermore, there were fewer people to accommodate at the lower income levels in the EC case, thus limiting the adjustment burden and simplifying the task of paying for adjustment assistance. The combined population of Spain and Portugal was 18 percent of the EC-10 total, whereas the population of Mexico is almost one-third the combined population of the United States and Canada.⁷

A third difference is that the NAFTA will follow the FTA precedent and will not deal with monetary and exchange rate issues, unlike the Community, where efforts are under way to build on the existing mechanism linking the members' currencies and to create a European central bank. Changes in real exchange rates will remain an essential adjustment mechanism of the three NAFTA economies. However, during the next decade Mexico may well decide to peg its currency even more closely to the US dollar and adjust its interest rate policies accordingly;⁸ but that would be a unilateral decision, not a negotiated outcome.

Despite unsupported allegations by some FTA critics in Canada to the contrary, the FTA did not address exchange rates. The strengthening of the Canadian dollar after the agreement entered into force reflects the relative performance of the two economies and in particular the tight monetary policy followed by the Central Bank of Canada.⁹

These three large obstacles to broader economic integration in North America are compounded by a range of smaller difficulties. The Europe 1992 process demonstrates that meaningful economic integration requires tough new disciplines on member-state industrial subsidies and the removal of barriers created by product standards, different trucking requirements, wide differences in value-added and excise taxes, capital controls, differences in competition policy, and

6. Mexico appears more prosperous if one looks at real GNP levels derived by Summers and Heston (1991) for the UN International Comparison Program. Calculating purchasing power parities for hundreds of goods, they arrive at 1988 GNP per capita of \$19,851 (United States), \$17,681 (Canada), and \$5,323 (Mexico). However, these data ignore nominal money wage differences, which are often what motivate corporate decisions and migration flows, and they probably exaggerate the income of Mexico's impoverished rural population.

7. A closer analogue is the possible accession of Turkey to the European Community: Turkey's GNP per capita in 1989 was one-twelfth the EC average, and the Turkish population, at 52 million, was about one-seventh the EC total.

8. Since 1990, the Banco de México has tried to ratchet down the pace of its crawling devaluation of the peso against the dollar: this action can be seen as a prelude to a fixed exchange rate.

9. Even before the FTA was negotiated, analysis by John Williamson (appendix to P. Wonnacott 1987) predicted that the economic effects of freer US-Canada trade would lead *ceteris paribus* to some appreciation of the Canadian dollar.

so on (see Hufbauer 1990). To list these hurdles is enough to suggest that economic union in North America is well out of reach for the near future.

Free Trade Agreements: Some General Observations

It is important to emphasize three general points regarding FTAs.¹⁰ First, FTAs result in freer trade, not free trade. Not all trade barriers are subject to elimination, and some nontariff barriers (NTBs) may be exempt from FTA obligations altogether. In the Canada-US negotiations, for example, all tariffs on bilateral trade are to be removed within 10 years, but several important NTBs, including domestic subsidies and agricultural quotas, remain intact. This is not necessarily inconsistent with the rules established by the General Agreement on Tariffs and Trade (GATT); indeed, the Canada-US FTA meets the GATT standards better than almost any other preferential trade agreement notified to the GATT in the past forty years.¹¹ The NAFTA negotiators thus have substantial flexibility to craft the provisions of the agreement to ensure that adjustment to freer trade is accommodated gradually and with a minimum of economic dislocation.

Second, FTAs serve an important function as an insurance policy against sudden changes in trade policies that may lead to increased discrimination against the trading interests of the partner countries and the imposition of new protectionist trade barriers. The ability to lock in existing levels of market access in the partner country is a major benefit of an FTA, and a very attractive feature to firms that are making investment and location commitments.

For example, in the Canada-US FTA an important US objective was to prevent a return to Canadian energy and investment policies that had sparked contentious bilateral disputes during the late 1970s and early 1980s. Similar considerations relative to recent Mexican economic reforms motivate US interest in the NAFTA talks. In turn, Mexico shares the Canadian concern about new US trade barriers, and in particular seeks insurance in the NAFTA against the abuse of US trade remedy laws that promote so-called process protectionism. In some respects, Canada receives preferential treatment under US contingent protection laws as a result of the dispute settlement provisions of the FTA, and Mexico will no doubt seek comparable treatment.¹²

10. For a detailed analysis of both the theory and the practical application of FTAs, see Schott (1989b).

11. Nonetheless, as with almost every agreement notified under GATT Article XXIV, the GATT working party reviewing the case noted concerns about specific aspects of the FTA and was unable to agree on whether the FTA was consistent with GATT obligations (see *Inside U.S. Trade*, 29 November 1991, S-1 to S-10).

12. In addition, Canada is accorded special treatment in safeguards cases under FTA Article 1102. The consistency of this provision with the GATT has not been put to the test, because no cases have been brought since the inception of the FTA.

Third, there is little precedent for an FTA between developed and developing countries; most FTAs have been between countries at similar levels of economic development.¹³ Moreover, there have been few successful cases of FTAs solely between developing countries, in part because of the high protectionist walls that many poorer economies erected after World War II to insulate their industries from international competition. Protectionist policies, justified by appeals to import substitution and infant-industry arguments, often cut developing countries off from valuable sources of foreign capital and technology. Many local firms lost their ability to compete internationally, and free trade became politically difficult to achieve. Only in the 1980s did the policy mood in the developing world swing away from the tenets of statism and protectionism.

Mexico, among the pioneers in this movement, turned toward free markets and private enterprise in the mid-1980s.¹⁴ Today, Mexico's trade regime fits the Canadian and US mold more than that of the great majority of developing countries. The breadth of its economic reforms since 1985 puts Mexico on solid ground to pursue free trade with its northern neighbors.

National Objectives

The following sections examine the objectives of each prospective partner in a NAFTA alliance.

United States

The United States has several fundamental objectives in pursuing negotiations toward a NAFTA. At the broadest level, the United States has a strong and abiding interest in promoting economic growth, political stability, and progress toward greater democracy in Mexico. Such results would have important benefits for the United States by reducing the risk of instability on its southern border. A meaningful FTA could make a valuable contribution toward those goals.

At the same time, the United States has an important economic stake in trade talks with Mexico. The first is simply to expand trade with Mexico, which is

13. The main exceptions have been the EC enlargement to include Greece and Portugal and the EC and US FTAs with Israel; in the latter two cases politics dominated the economics, and distance protected against major trade shifts in any event. One reason for the scant number of FTAs between rich and poor countries, highlighted prominently in the US fast-track debate, is concern about low-wage competition from developing countries in sensitive manufacturing sectors.

14. In June 1985 the Mexican government initiated a drastic reform program. This exceptional episode of economic history has been ably recounted by Adriaan ten Kate (1990).

already its third-largest trading partner. Even more important, however, a NAFTA would promote the efficient use of natural and human resources in the North American region, and thus enable US firms and workers to compete more effectively in world markets.

In addition, a NAFTA would reinforce ongoing Mexican trade and investment reforms, which, along with reforms in Mexican laws relating to intellectual property rights, have generated substantial new opportunities for US firms. A NAFTA would contribute to increased economic growth in Mexico, which in turn would increase demand for US goods and services. If Mexico's recent strong growth performance can be maintained, net US exports to Mexico should expand substantially, generating net US employment gains in turn. Furthermore, growth in the Mexican economy will create new jobs and higher wages in Mexico and eventually slow the tide of illegal immigration (which, however, will remain a problem over the next decade or two).

In the aggregate, the direct, static benefits to the United States from the elimination of Mexican trade barriers will be small but not inconsequential. This reflects the fact that the Mexican economy today is relatively small, with a GNP less than 4 percent that of the US economy. In addition, US exporters have already reaped some of the benefits to be derived from lower Mexican trade barriers as a result of the substantial trade reforms that Mexico has embraced unilaterally since 1985.¹⁵ However, the benefits of unilateral trade liberalization can be transitory; a NAFTA would secure and augment those reforms in an international accord and thus ensure that the benefits for US trading interests will be maintained.

The potential dynamic gains for US exporters from the NAFTA could be significant. The NAFTA would contribute to rapid growth in Mexican income and employment. Within four decades, Mexican per capita income could reach the same level that the United States attained in 1988—glowing prosperity compared with today's grinding poverty. A prosperous Mexico would become a thriving market for US exports.

To illustrate the potential dynamic trade gains, consider that Mexico now imports about \$300 per capita annually from the United States; in contrast, Canada's annual imports from the United States run about \$3,000 per capita.¹⁶ Mexico already purchases about 70 percent of its imports from the United States; with strong growth in the Mexican economy, most of Mexico's additional purchases will also come from the US market. Although Mexico will not reach

15. Similarly, US tariff preferences for Mexico under the Generalized System of Preferences (GSP) and other programs have provided US firms access to low-cost, labor-intensive Mexican goods, which has strengthened their competitive position in the global economy.

16. Sidney Weintraub (1990c) originally put forward this line of argumentation in *The Washington Quarterly*.

the per capita import levels of industrialized Canada any time soon, annual US sales to Mexico could well increase from \$28 billion in 1990 to nearly \$60 billion by 1995 (see chapter 3).

Mexico

Mexican objectives in a NAFTA negotiation seem quite specific. First, an FTA with the United States would yield more open and secure access to a market that accounts for three-quarters of total Mexican exports. A NAFTA should reduce the threat of US protectionism and enhance Mexican export opportunities in the US market.

Second, international commitments under a NAFTA, together with prospective GATT accords, would help lock in domestic Mexican reforms instituted since 1985. In the initial wave of liberalization, licensing requirements were cut back for about 3,600 items, leaving 908 items under control. Since then, the maximum tariff level has been cut from 100 to 20 percent, the trade-weighted average tariff has fallen to just above 10 percent (table 1.2; data for production-weighted tariff averages are reported by sector in table 1.4), most licensing requirements have been eliminated (table 1.3), and the official reference prices for customs valuation purposes have been progressively removed. In addition, regulations regarding foreign investment and technology transfer have been liberalized and the intellectual property laws substantially revamped. These reforms have been complemented by substantial deregulation and privatization in key sectors including banking, telecommunications, and transport.¹⁷

The new trade regime was designed to confront Mexican industry with international competition and force greater efficiency. However, the impact was deliberately delayed by a severely depreciated peso. From early 1985 to the end of 1986, the Mexican peso was devalued by 27 percent in real terms (ten Kate 1990, table 1). As a result, the trade liberalization package did not immediately lead to an import surge, and Mexican industry was temporarily insulated from structural adjustments.

In 1987 the Mexican peso sharply appreciated, by 22 percent in real terms (ten Kate 1990, table 1). In addition, the Mexican government announced the Economic Solidarity Pact, which increased prices of public goods and services, cut back government spending, ended the indexation of wages to inflation, and continued the 1985 trade liberalization measures (tables 1.3 and 1.4). Imports

17. In September 1991 additional reforms were advocated by a group of 31 Mexican companies (including subsidiaries of major US firms), involving *inter alia* a doubling of infrastructure investment, pegging the peso to the US dollar, and cutting Mexico's marginal income tax rate (see *Journal of Commerce*, 9 September 1991, 1A).

Table 1.2 Mexico: trade policy reforms, 1985-90 (percentages)

	June 1985	June 1986	June 1987	June 1988	June 1989	June 1990
Coverage of import licenses ^a	92.2	46.9	35.8	23.2	22.1	19.9
Coverage of reference prices ^a	18.7	19.6	13.4	0.0	0.0	0.0
Maximum tariff	100.0	45.0	40.0	20.0	20.0	20.0
Production-weighted average tariff	23.5	24.0	22.7	11.0	12.6	12.5

a. With respect to tradeable output.

Sources: US International Trade Commission, *Review of Trade and Investment Liberalization Measures by Mexico and Prospects for Future United States-Mexican Relations* (USITC Publication 2275), April 1990, table 4-1 (original data from the Secretaría de Comercio y Fomento Industrial); Banco de México, *The Mexican Economy*, 1991.

Table 1.3 Mexico: shares of domestic production covered by import licensing, by industry, 1980-90 (percentages)

Industry	April 1980	June 1985	December 1985	June 1986	December 1986	June 1987	December 1987	June 1988	December 1988	June 1989	December 1989	June 1990
Agriculture	95	96	62	63	58	58	42	44	44	44	40	40
Crude oil and natural gas	100	100	100	100	100	100	100	100	100	100	100	100
Other mining	27	52	4	4	4	4	0	0	0	0	0	0
Foodstuffs	69	98	56	56	38	32	26	26	25	25	21	20
Beverages and tobacco	18	100	99	99	99	63	21	21	20	20	20	20
Textiles	80	91	10	10	10	10	7	2	3	3	3	1
Apparel and footwear	93	99	81	81	81	78	53	0	0	0	0	0
Wood products	77	100	47	47	12	12	0	0	0	0	0	0
Paper and printing	31	75	7	7	7	7	6	0	0	0	0	0
Petroleum refining	90	94	87	87	87	87	87	87	87	87	87	86
Chemical products	41	87	25	25	22	18	3	3	2	2	2	2
Nonmetallic mineral products	31	96	15	15	10	4	2	2	2	2	0	0
Basic metal industries	50	87	0	0	0	0	0	0	0	0	0	0
Metal products	22	74	8	9	3	2	1	1	1	1	1	1
Machinery and equipment	55	86	19	16	7	6	3	2	5	5	3	2
Electrical materials	51	97	41	37	32	24	0	0	0	0	0	0
Transport equipment	77	99	77	77	64	64	58	57	41	41	41	39
Miscellaneous manufacturing	52	92	23	23	18	17	0	0	0	0	0	0
Total production of goods	64	92	47	47	40	36	25	23	22	22	20	20

Source: Adriaan ten Kate, *The Mexican Trade Liberalization of 1985-1987: Lessons from Experience*. Reprinted with permission.

Table 1.4 Mexico: production-weighted tariff averages, 1980-90^a (percentages)

Industries	April 1980	June 1985	December 1985	June 1986	December 1986	June 1987	December 1987	June 1988	December 1988	June 1989	December 1989	June 1990
Agriculture	9	9	13	12	13	13	7	6	9	10	9	9
Crude oil and natural gas	0	0	0	0	0	0	0	0	10	10	9	9
Other mining	12	19	19	18	18	16	8	8	11	11	11	11
Foodstuffs	24	23	32	29	29	26	14	12	12	12	12	12
Beverages and tobacco	73	77	77	41	40	37	20	20	20	20	20	20
Textiles	22	33	45	37	37	33	15	15	15	15	15	15
Apparel and footwear	32	47	48	41	41	37	19	19	19	19	19	19
Wood products	29	37	41	37	37	34	18	17	17	17	17	17
Paper and printing	22	20	22	19	19	18	10	5	7	7	7	7
Petroleum refining	2	2	3	2	2	2	1	1	10	10	4	4
Chemical products	31	29	32	27	28	26	13	13	14	14	13	13
Nonmetallic mineral products	33	32	39	33	33	30	15	14	15	15	15	15
Basic metal industries	12	15	22	20	20	19	8	8	11	11	11	11
Metal products	37	36	39	30	30	28	15	15	15	15	15	15
Machinery and equipment	24	22	33	29	31	28	15	16	16	16	16	16
Electrical materials	31	36	46	38	39	35	17	17	17	17	17	17
Transport equipment	42	39	42	29	32	29	14	15	16	16	16	16
Miscellaneous manufacturing	44	51	53	38	38	34	18	18	18	18	18	18
Total production of goods	23	24	29	24	25	23	12	11	13	13	13	13

a. Percentages ad valorem; these averages do not include the uniform surcharge that was abolished in December 1987.

Source: Adriaan ten Kate, *The Mexican Trade Liberalization of 1985-1987: Lessons of Experience*. Reprinted with permission.

immediately increased by more than 50 percent, from \$12 billion in 1986 to \$19 billion in 1987, reflecting pent-up demand not only for consumer goods but also for intermediate and capital goods that were in short supply in the Mexican economy. This time, Mexican industry felt the full brunt of international competition and had no choice but to pursue a rigorous program of cost cutting and retrenchment.

By securing and expanding Mexico's domestic economic reforms, a NAFTA would send a positive signal that Mexico's current favorable climate toward trade and investment will not easily be reversed. This added boost of confidence should help encourage continued inflows of foreign direct investment, repatriation of flight capital, and new lending from international financial institutions. These are all needed to finance Mexican economic development in the years ahead.

Between 1987 and 1990, Mexico's current account balance shifted from a surplus of \$4.0 billion to a deficit of \$6.3 billion (table 1.5); the Mexican government expects the deficits to rise further, to \$11 billion and \$13 billion in 1991 and 1992, respectively. In a sense, the current account deficits represent a vote of confidence by the financial markets: instead of leaving Mexico, capital is now returning to find new opportunities. Indeed, despite the mounting deficits, Mexican reserves rose to almost \$17 billion in November 1991 (*Financial Times*, 19 November 1991, 8).

Mexico's open trade policy depends importantly on its ability to sustain inflows of foreign direct investment and the repatriation of flight capital needed to service its external debt. Both require Mexico to maintain its economic stabilization program to keep inflation under control and to avoid a sharp depreciation of the peso.

Since the introduction of the economic stabilization and trade liberalization programs in 1985, the stock of foreign direct investment in Mexico has more than doubled, to a level of \$30.3 billion at the end of 1990 (see chapter 4). The rapid growth of this investment in Mexico is likely to continue. Mexico's strong growth performance in 1989-90 and its prospective membership in a NAFTA seem to have encouraged new investors; Japanese firms reportedly have already committed \$3 billion for future projects (*Business Week*, 3 June 1991, 20).

The major cloud on the Mexican economic horizon is its large foreign debt. Mexico's total external debt is still about \$98 billion, yielding a debt-export ratio of 233 percent (table 1.6). Debt restructuring under the Brady Plan in 1989 contributed modestly to a reduction in both the aggregate debt burden and debt-servicing requirements.¹⁸ However, despite the relief afforded under the Brady

18. The 1989 debt accord affected \$48 billion in medium- and long-term debt to foreign banks and resulted in annual interest savings of about \$1.5 billion. This resulted from a reduction of \$6.9 billion in the principal and lower interest charges on \$25 billion in debt through a conversion to fixed-interest bonds (the conversion was equivalent to another \$8.1 billion of debt forgiveness).

Table 1.5 Mexico: selected balance of payments accounts, 1980-90 and projected 1991-95^a (millions of dollars)

Account	1980	1981	1982	1983	1984	1985	1986	1987	1988
Current account	-7,223	-12,544	-6,435	5,418	4,239	1,237	-1,671	3,966	-2,443
Trade	-3,700	-4,510	6,783	13,761	12,942	8,452	4,599	8,433	1,667
Nonfactor services ^b	n.a. ^c	n.a. ^c	-851	621	950	682	965	1,946	2,439
Factor services	-3,798	-8,323	-12,663	-9,265	-10,064	-8,899	-7,701	-7,062	-7,117
Transfers	275	289	296	301	411	1,002	466	649	568
Capital account (net)	11,948	21,859	6,754	-1,279	39	-1,527	1,837	-576	-1,448
Special drawing rights and other	74	70	0	0	0	0	0	0	-394
Errors and omissions	-3,648	-8,373	-5,271	-1,022	-924	-2,134	439	2,710	-2,842
Change in gross reserves	1,151	1,012	4,738	3,101	3,201	-2,328	985	6,924	-7,127
Account	1989	1990	1991	1992	1993	1994	1995	1996	
Current account	-6,004	-6,349	-12,342	-16,950	-18,343	-20,626	-20,556	-20,952	
Trade	-2,596	-4,140	-11,111	-15,993	-18,100	-21,398	-22,390	-24,011	
Nonfactor services ^b	2,317	1,813	2,272	2,134	3,194	4,373	5,847	7,427	
Factor services	-7,801	-7,577	-5,834	-5,772	-6,451	-7,023	-7,921	-8,817	
Transfers	2,075	3,555	2,331	2,680	3,014	3,422	3,908	4,450	
Capital account (net)	3,037	9,707	19,894	17,983	18,740	19,376	19,638	21,109	
Special drawing rights and other	-125	181	219	81	221	866	882	548	
Errors and omissions	3,362	-125	-636	890	550	1,087	1,194	821	
Change in gross reserves	271	3,414	7,135	2,004	1,168	704	1,158	1,526	

n.a. = not available.

a. Discrepancies are in the original data.

b. This includes various transactions at the frontier for which the method of calculation was changed in 1982.

c. Factor and nonfactor services not broken down separately.

Sources: Banco de México, *The Mexican Economy* 1991; Sidney Weintraub, *A Marriage of Convenience: Relations Between Mexico and the United States* (New York: Twentieth Century Fund, 1990), table 4.9, 88; CIEMEX-WEFA, Bala Cynwyd, PA (for 1988 to 1990 actuals, and 1991 to 1996 projections). Data reflect revisions through December 1991. CIEMEX-WEFA data reprinted with permission.

Table 1.6 Mexico: composition of external debt, 1985–90
(billions of dollars except where noted)

Year	Public sector	Commercial banks	IMF loans	Nonbank private sector	Total external debt	Total debt as a percentage of GDP	Total debt as a percentage of exports
1985	72	5	3	17	97	55	323
1986	75	6	4	16	101	78	421
1987	81	6	5	15	108	77	360
1988	81	8	5	7	101	58	316
1989	76	9	5	5	95	47	264
1990 ^a	78	8	7	6	98	42	233

a. Preliminary.

Sources: Banco de México, *The Mexican Economy*, 1990 and 1991; International Monetary Fund, *International Financial Statistics*, 1990, various issues. International Monetary Fund data adapted with permission.

Table 1.7 Mexico: external debt service, 1985–90

Year	Total debt service (billions of dollars)	Exports of goods and services (billions of dollars)	Debt service ratio (percentages)	Interest payments as a percentage of exports
1985	13.0	29.7	43.8	34.1
1986	11.5	23.7	48.5	35.2
1987	12.8	29.9	42.8	27.1
1988	13.9	32.0	43.4	27.0
1989	13.0	36.0	36.1	25.8
1990 ^a	12.2	41.6	29.3	21.7

a. Preliminary

Source: Banco de México, *The Mexican Economy*, 1990 and 1991.

Plan and increased oil export earnings, the annual interest payments on Mexico's external debt still consume almost 22 percent of total Mexican exports of goods and services (down from 35 percent in 1986; see table 1.7). Complacency is not in order.

Mexico conducts about three-fourths of its total trade with the United States; merchandise exports to the United States (including total maquiladora shipments) now account for about 13 percent of Mexican GDP (see table 3.1). The shift in the composition of Mexican exports—sharp growth in manufactures

exports and a sharp drop in the share accounted for by oil—has, if anything, increased Mexico's trade dependence on the US market.¹⁹

To date, however, US protectionism has not been a severe problem for Mexican manufactured exports. The main restrictions affect textiles, apparel, steel, and some agricultural products (mainly fruits and vegetables); however, quotas in many of these areas have been liberalized as a result of agreements negotiated under the 1987 and 1989 bilateral framework accords.²⁰ Similarly, the number of antidumping and countervailing duty (CVD) cases has dropped considerably since 1985, with no new CVDs imposed since the bilateral accord on subsidies and CVDs in 1985, and only eight antidumping cases. However, the continued growth of Mexican nonoil exports to the United States could generate pressures for new US trade controls, which is one reason why Mexico has put so much emphasis on bilateral trade talks with the United States (see Trigueros 1989).

In sum, throughout the recent economic stabilization and reform program, trade policy has been the handmaiden of Mexican monetary and fiscal policy. Mexico's first task has been to slash the public deficit and to get inflation under control. Mexico's trade reforms have contributed to that end by opening the economy to greater import competition, which has helped dampen inflationary pressures (especially since 1988) while providing new competition in the marketplace. The reforms are already paying dividends: Mexico recorded solid economic growth in 1990 and 1991.

The key task of Mexican economic policymakers in the 1990s is to promote the restructuring and growth of the Mexican economy while keeping inflation under control. Investment, generated both from domestic savings and from foreign sources, will be the primary engine of growth. Trade policy can play an important role by ensuring the durability of the substantial measures already taken to open the Mexican economy to international competition, and by securing reciprocal trade concessions from Mexico's main trading partner.

Canada

In some respects, Canada is a reluctant partner in the NAFTA negotiations. It went through a wrenching national debate before ratifying the Canada-US FTA; critics

19. Oil accounted for about one-third of Mexican merchandise exports in 1989, compared with almost 69 percent in 1984; manufactured goods now account for 60 percent of total merchandise exports.

20. For example, in October 1989 the United States doubled Mexico's annual steel import quota from 400,000 to 800,000 tons; in February 1990 it agreed to eliminate quotas on 52 textile and apparel products and to expand quotas by an average of 25 percent for products that remain controlled (see chapters 12 and 13). These reforms took place after a period in which US quotas had been tightened or newly erected against the main exporters of these products to the US market.

of the FTA in Canada still loudly blame the trade pact for many of the ills that have befallen the Canadian economy over the past two years. Much of this criticism has been exaggerated and misplaced, but it does reflect legitimate sovereignty concerns first raised during the FTA debate.²¹ In the NAFTA context, however, Canadian concerns seem to be much more focused on economic than on sovereignty issues.

To a significant extent, Canadian concerns about free trade with the United States and Mexico reflect discomfort with the prospect of structural adjustments in the economy and the implications such reforms may have for popular but expensive public programs. A system of free trade compels a country to examine carefully the costs its macroeconomic and microeconomic policies impose on individual firms. It does not *require* the convergence of national policies, but it does generate new competitive forces within the region and thus may increase pressure toward convergence.²²

If Canada continues to run large fiscal deficits (3.4 percent of GDP in 1989) and to control inflation through tight monetary policy, it can expect high interest rates and a strong real exchange rate. Both of these macroeconomic policies put severe pressure on Canadian firms (just as similar policies under the first Reagan administration put US firms at a competitive disadvantage), as already evidenced by the growing traffic of Canadian shoppers across the US border, spurred by the strong purchasing power of the Canadian dollar and seeking to avoid high Canadian consumption taxes.²³

Counterbalancing these economic concerns, Canada must consider its political position as one of the Big Four in international trade negotiations (together with the United States, the European Community, and Japan). For historical reasons, Canada has enjoyed a far larger role in shaping the international trading system than its economic position alone would merit; that role would be jeopardized if Canada were to sit out the NAFTA talks. Maintaining status was one important reason for Canada to seek a place at the table.

In addition, the Canadian decision to join the NAFTA negotiations rested importantly on the need to avoid a dilution of its FTA preferences in the US market and, to a lesser extent, to achieve access to the Mexican market comparable to

21. Given Conservative control of the sitting parliament, Canadian opposition to the NAFTA is not sufficient to derail Canadian participation. In any event, the NAFTA has been a much less strident political issue in Canada than the FTA. The political hot potato is the sovereignty of Quebec, not the current trade talks.

22. Of course, convergence pressures would exist even in the absence of a NAFTA, because of competition from foreign suppliers in both home and export markets.

23. Statistics Canada reported an almost 20 percent increase in cross-border shopping trips in May 1991 from a year earlier (*New York Times*, 9 August 1991, A1; see also *Wall Street Journal*, 20 June 1991, 1).

what its US competitors would enjoy. The Canadian decision thus can be read in economic terms both as a defensive move to safeguard the gains of the Canada-US FTA and as an effort to improve upon the FTA so as to create new export opportunities. Canada is particularly concerned to safeguard its position under the Canada-US FTA in areas such as trade in automobiles and energy, and to ensure that provisions that exempt Canadian cultural industries from FTA reforms remain intact.²⁴

At the same time, Canada's chief negotiator, John Weekes, has indicated that Canada will seek improved access to the US and Mexican markets for Canadian banks under the financial services provisions of the NAFTA, and a further expansion of export opportunities for Canadian firms in the government procurement sector (*Inside U.S. Trade*, 7 June 1991, 6). Canada also has a growing export interest in agricultural trade with Mexico, especially field crops. Concessions in these areas will have to be significant for Canada to agree to changes in areas of concern to the United States and Mexico (e.g., energy investment, pharmaceutical patents, origin rules for automobiles, and agricultural trade barriers).

Canadian negotiators thus face an interesting challenge. They would be happy with the *status quo ante*, but they realize that reforms by the United States and Mexico will affect the Canadian position in the US market whether Canada participates or not. Thus, they will need to maximize the results in the financial services, procurement, and grains negotiations to achieve a balanced package from the Canadian perspective.

In addition, like the United States, Canada will need to rethink its labor adjustment assistance policies as it embarks on free trade with Mexico. In most cases, Canada is likely to face competitive pressures in the same sectors as the United States; some of these will involve industries that were only marginally affected by the Canada-US FTA (e.g., auto parts, textiles and apparel). Although the overall adjustment burden posed by a NAFTA will be much more limited than that posed by the FTA, it will be concentrated in these import-sensitive sectors. Canada, like the United States, will thus need to place greater emphasis on complementing income maintenance programs with retraining and placement services (chapter 6; see also Economic Council of Canada 1988).

In many instances, Canada is likely to be an impartial third party when the negotiations turn to issues that have a direct bearing only on the United States and Mexico.²⁵ However, issues will certainly arise where Mexico City and Ottawa

24. Both these concessions are likely to be challenged by the United States. In automobiles, ongoing discussions of North American trade pursuant to FTA Article 1004 have highlighted US-Canadian differences concerning whether to raise the rule of origin for automobile industry FTA benefits to 60 percent (see chapter 11); meanwhile, the exemption for cultural industries is a source of continuing bilateral friction.

25. Richard Lipsey (1991, 108) has made this point succinctly: "In most cases, Canada's less involved position is likely to leave it in its natural place: playing the part of honest broker between the two others, rather than being a major protagonist itself."

will find their common commercial interests conflicting with Washington's. In these cases, two coordinated voices may well have more impact than two distinct ones.

Plan of the Book

The prospect of an integrated North American market has intuitive economic appeal. However, because of large disparities in the countries' levels of development and in wage structures, a NAFTA will face much stronger political opposition from labor, agricultural, environmental, and manufacturing interests than did the Canada-US pact. Policymakers need to be fully apprised of both the opportunities and the adjustments that will arise from freer trade in North America.

The following chapters analyze both the substance and the form of a prospective NAFTA. Chapter 2 examines the potential shape and content of the agreement (including dispute settlement and institutional issues), its possible extension to third countries, and its implications for multilateral trade negotiations in the GATT.

The second part of the book examines the broad economic implications of a NAFTA for trade, investment, and employment. Chapter 3 analyzes the trade effects for both the NAFTA members and third countries of eliminating trade barriers on intraregional trade in North America. Chapter 4 looks at investment issues. Chapters 5 through 7 analyze the impact of the Mexican maquiladora program on bilateral and regional trade, and examine labor and environmental concerns that arise because of Mexico's lower level of economic development. Chapters 8 and 9 then cover the cross-sectional issues of rules of origin and intellectual property.

The third part of the book analyzes the implications of a NAFTA for selected industries and agriculture. Chapters 10 through 15 examine how producers of energy, automobiles, steel, textiles, agricultural goods, and financial services in the Mexican economy could be affected by a NAFTA and the implications for US and Canadian industries.

As Mexico is the prospective new member of the free trade club, much of the analysis is directed at that country and the effects of closer integration with its northern neighbors. The Mexican economic story has been dramatic but is not well understood. We therefore devote considerable effort to examining Mexican policies, recognizing that our treatment of the implications for Canada is less complete.

Each of the chapters contains its own conclusions and recommendations. The fourth and final part of the book summarizes the major conclusions and policy recommendations reached in the study.