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Folder Title:
Fast Track [1]

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May 22, 1997

MEMORANDUM FOR MR. MCLARTY

From: Dan Lesmez 

Subject: CBI Trade Enhancement

I spoke with John Hueneman and Sue Cronan this afternoon about the status of the CBI Trade Enhancement proposal. Several agencies are still reviewing it, although only minor changes are expected to be made to it. The date for the submission of this proposal to Capitol Hill remains uncertain, although there is a chance that a decision on when to send it up could come up as early as next week after the "dust settles" on Fast track.

Although the CBI Trade enhancement proposal is reflected in the President's FY 1998 budget that was submitted in February, it is not included in the House budget resolution. It also is not expected to be included in the Senate's budget resolution. Instead, the tax writing committees are expected to take it up separately after the proposal is submitted to Congress by the Administration.

cc: Nelson Cunningham
Eric Farnsworth
Steve Ronnel
Andrew Friendly

Clifford S. Gibbons

April 30, 1997

Dear Andrew,

It was a pleasure to meet you
at the Costa Rican dinner Tuesday
evening. Please let us know if we
can be of assistance to you and Mr. Mahoney.
Our firm has pulled together a broad based
business coalition to help the White House with
post track authority. We look forward to working
with you. All the best! Cliff Gibbons

*Peter O. Kelle
Lad Brown
Bob Kye*

GIBBONS & COMPANY

1455 PENNSYLVANIA AVENUE, N.W.

THE WILLARD OFFICE BUILDING

SUITE 525

WASHINGTON, D.C. 20004

TEL (202) 783-6000

FAX (202) 783-4171

March 18, 1997

*Fast track
file
April 16
at 10:00am*

Mr. Thomas F. McLarty, III
Senior Counselor to the President
The White House
Washington, DC 20500

*Pete
I would like to
discuss this with
you before I accept
this. Thanks -
Mack*

Dear Mack:

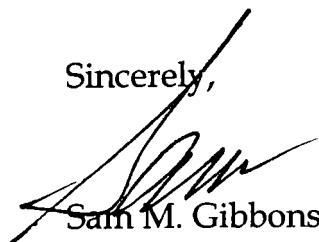
Bill Frenzel and I are aggressively moving forward in our efforts to get fast track negotiating authority for the President. I testified today before the Ways and Means Committee hearing on U.S. Trade Policies and Initiatives. My testimony was a call for Congress to immediately grant the President unconditional fast track negotiating authority. Bill and I also met with Charlene Barshefsky and Ira Shapiro today to discuss the content and timing of the Administration's proposal to Congress.

Moreover, we are in the process of planning a meeting on April 10th at 10:00 a.m. with 25 to 30 senior business and association people in Washington who will aggressively promote fast track authority. All of these individuals have the common goal of obtaining "clean" fast track authority. Enclosed is a partial list of those who, as of today, are planning to attend.

While we know that on this date you will be preparing for your important trip to Mexico on the 11th, we would appreciate it if you would take 10 to 15 minutes to "jump start" the meeting by expressing the Administration's views on this important matter. The meeting will be in The Willard Office Building, 1455 Pennsylvania Avenue, N.W., Suite 525, Washington, DC 20004 (a block away from the White House).

Thank you for your consideration of this important meeting. We look forward to working with you!

Sincerely,


Sam M. Gibbons

**PARTICIPANTS IN APRIL 10, 1997
FAST TRACK AUTHORITY MEETING**

Michael Andrews
Bob Barrie
Tommy Boggs
Bill Cable
Nick Calio
James Christy
Cal Cohen

Stephen Engelberg
Jane Fawcett-Hoover
Vic French
Ray Garcia
Mel Goodweather
Brendan Harrington
John Hay
Bill Hecht
Alan Holmer

Mike House
Bill Krist
Bill Lane
Tracy Mullin
Chuck Levy
Kip O'Neill
Joe O'Neill
Peter Prowitt
Elizabeth Schwartz
Duffy Wall
Lyn Withey
Alan Wolff

Salomon Brothers, Inc.
O'Connor & Hannan
Patton, Boggs, L.L.P.
Timmons & Company
O'Brien Calio
TRW
Emergency Committee for
American Trade
Monsanto Company
Proctor & Gamble Company
French & Company
Rockwell International
United Technologies
Cargill, Inc.
Westinghouse Electric Corporation
Hecht, Spencer & Associates
Pharmaceutical Research &
Manufacturers of America
Hogan & Hartson, L.L.P.
American Electronics Association
Caterpillar
National Retail Federation
The Business Roundtable
O'Neill, Athy & Casey, P.C.
Public Strategies Washington
General Electric
The Boeing Company
R. Duffy Wall & Associates
International Paper
Dewey Ballantine

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Facsimile Transmittal

For Immediate Delivery

To: Mack McLarty

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From: Sam M. Gibbons

Date: March 18, 1997

Time: 5:15 pm

Client: 5000

Comments:

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April 9, 1997

MEMORANDUM FOR MACK McLARTY

FROM: Peter O'Keefe

SUBJECT: Fast Track Briefing for Business Community

I understand that Sam Gibbons has canceled the meeting he set up with the business community to discuss Fast Track. I think this is actually favorable for us. The business community is ready to go to work on this issue and is waiting for some direction from The White House. Therefore, I believe that we should call the first meeting when we have decided what this legislation will be asking for. Also, you should know that I received several phone calls from corporate representatives, who were attending the meeting, asking why Mr. Gibbons was hosting the first meeting on this issue and not The White House.

My recommendation would be that once we have decided, internally, what the content of this legislation will be, we host the first meeting and then let the outside entities convene successive meeting from that point. This will give us the opportunity to disclose the entire legislative proposal to them as well as our reasons for including certain priorities.

In addition, Ken Cole, among others, believes that you are going to be critical to the legislative process once this legislation is sent to Congress. In his opinion, no one else will be able to sit down with key legislators on the other side of the aisle, who will be key to passing any bill. He has suggested that we begin setting up meetings with key CEOs (no more than 2 or 3 at a time) to meet with you and discuss ways in which they can assist you in this process.

Please let me know if you would like me to proceed further.

① Nelson
② Steve
③ Eric
④ Rose

Andrew

Document No. _____

WHITE HOUSE STAFFING MEMORANDUM

DATE: 4-4 ACTION/CONCURRENCE/COMMENT DUE BY: _____

SUBJECT: Fast Track

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☒	McCURRY	☐	☒
BOWLES	☐	☒	McGINTY	☐	☐
~~McLARTY~~	☒	☒	NASH	☐	☐
PODESTA	☐	☐	RUFF	☐	☐
MATHEWS	☐	☒	SMITH	☐	☐
RAINES	☐	☐	REED	☐	☐
BAER	☐	☐	SOSNIK	☐	☒
ECHAVESTE	☐	☐	LEWIS	☐	☐
EMANUEL	☐	☒	YELLEN	☐	☐
GIBBONS	☐	☐	STREETT	☐	☐
HALE	☐	☐	SPERLING	☐	☐
HERMAN	☐	☐	HAWLEY	☐	☐
HIGGINS	☐	☐	WILLIAMS	☐	☐
HILLEY	☐	☒	RADD	☐	☒
KLAIN	☐	☐	_____	☐	☐
BERGER	☐	☐	_____	☐	☐
LINDSEY	☐	☐	_____	☐	☐

REMARKS:

This memo sent to Gorn last night.

RESPONSE: _____

Staff Secretary

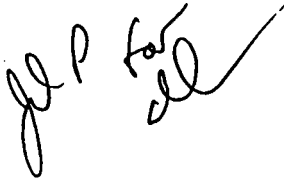
THE WHITE HOUSE
WASHINGTON

4-7-97 8:50

April 7, 1997

MEMORANDUM FOR THE PRESIDENT

From: Samuel Berger
Daniel Tarullo
Gene Sperling



Subject: Fast Track

Purpose

To determine how to proceed on seeking fast track authority. Our credibility in Latin America increasingly is eroding because we have not moved beyond rhetorical support. Moreover, economic integration is proceeding in the hemisphere (e.g., MERCOSUR), but without us. However, there is substantial Democratic opposition to any fast track bill that does not mandate provisions in trade agreements that provide for trade restrictions on countries for failure to meet labor and environmental standards. Republicans will not accept such provisions, but they have also indicated they would insist on significant Democratic support for a fast track bill. The issue is further complicated by the possibility of an early budget agreement, which may also involve a break in party unity, and which will command the lion's share of our resources and time, including your own, for at least the next month.

Background

Fast track has never been popular in the Congress. The House tends to be skeptical of trade liberalizing agreements in general, while the Senate tends to be resistant to the constraints upon floor debate and amendments. Prior enactments of fast track were contained in broad-ranging trade bills in which support for fast track was accepted by some members in return for making U.S. import laws more restrictive and market access laws such as section 301 more aggressive. These bills also provided new programs for displaced workers.

The normal difficulties of obtaining fast track are compounded this year by several factors. First, free trade agreements have become strongly associated by many in Congress and the public with NAFTA. The peso crisis and resulting reversal in our trade balance, along with seemingly extraneous issues such as drugs and corruption in Mexico, have made NAFTA unpopular in many quarters. Second, budgetary constraints suggest little room for additional programs to ease

displacement anxieties of potentially affected groups of workers. Third, the substantial resistance to fast track among House Democrats presents a very awkward situation as we try to conclude a budget agreement that is already placing severe strains on party unity. A number of your political and congressional advisors are particularly concerned that proceeding vigorously with fast track now risks both alienating Democrats we need on the budget and sustaining an early loss that would reduce our influence on the Hill.

On the other hand, there is political cost to delay: Gephardt and other opponents already are lining up Members, our supporters are exposed and we may exacerbate the challenge facing us if we don't proceed soon.

The most contentious issue is the role of labor and environmental standards in future trade agreements. For NAFTA we negotiated "side agreements" for labor and the environment, which provided a special form of dispute settlement where there had been a "persistent failure" by one of the governments to enforce its own laws on some labor areas and the environment. If such a failure is found, fines are to be imposed on the offending government, with trade sanctions imposed only if the fine is not paid. These agreements were approved by the Congress. They have not been frequently invoked.

There appears to be strong support among business and the Republican leadership for fast track authority, but only if labor and environmental provisions are not included in any agreements negotiated under fast track authority. This proviso seems to include side agreements approved by the Congress, though perhaps not side agreements reached on the basis of Executive authority alone. Representative Gephardt and the AFL-CIO, on the other hand, have indicated they will actively oppose fast track unless the terms of the authority require that labor and environmental provisions, backed by trade sanctions, be included in any future free trade agreements. Even the environmental groups that eventually supported the NAFTA side agreement will be hard to win over this time around, since they have been disappointed in environmental developments along the border and believe that they had an understanding with the Administration that future trade agreements would be "greener" than NAFTA. However, anything less than the side agreements approach would surely elicit charges that we are backing off even a moderate commitment to the environment.

When USTR consulted extensively with the AFL-CIO earlier in the year there were some hints that labor might not strongly oppose fast track (there was never any hope they would support it). However, at the AFL-CIO's annual meeting in Los Angeles in February there was a surge of anti-trade sentiment from some constituent unions, and the leadership had to work hard to avoid a resolution that would have essentially opposed new trade agreements under any circumstances. There is only limited hope that further discussions would yield agreement on some intermediate position. A major anti-fast track campaign from labor is more likely.

In the House, where any fast track bill must originate, and where it will be tougher to prevail, we will need at least 120-140 Republican votes, which the Republican leadership seem to believe they can secure in the absence of a problem with the labor and environmental provisions. Vote counting is complicated by the fact that House freshmen and sophomores have not had to cast a

difficult vote on trade. Based on previous landmark trade votes, the House Republican profile is as follows:

- 98 Yes on NAFTA/GATT
- 2 No on NAFTA, Yes on GATT
- 25 No on NAFTA/ GATT
- 91 Freshmen/Sophomores with no past trade votes

As was the case with NAFTA, Republicans are likely to insist that we get a substantial number of Democrats (perhaps 80-90) to support our position. Many House Democrats who are potential supporters of fast track are clearly uncomfortable with being pulled from opposite sides by their leadership and the White House. The House Democratic profile is as follows:

- 43 Yes on NAFTA/GATT
- 48 No on NAFTA, Yes on GATT
- 57 No on NAFTA/GATT
- 59 Freshmen/Sophomores with no past trade votes

Our challenge in the House is exacerbated by the departure of most of the key Democratic members who provided the whip organization for NAFTA. Indeed, Matsui is the only remaining member who performed that role. Our core of support should come from the 43 Democrats who voted for both NAFTA and GATT. If forty or so additional votes are needed, the next best target group is composed of the freshmen and sophomores, with some lesser possibility of picking up a handful from the group that voted no on NAFTA but yes on GATT. We will have to pick up these Democrats with an intermediate position on labor and environmental standards that gives them something to vote for while not losing significant Republican support.

Our position would likely be a "clean" fast track bill that did not either require or exclude labor and environment provisions of any sort. However, we will have to state our intentions on these issues. Charlene has recommended that we support an approach that would include side agreements with sufficiently strong labor and environment provisions to attract some Democrats. However, these agreements would not be submitted to Congress (which would engender wholesale Republican opposition) and thus would be Executive agreements only, which in theory could be terminated by a later Administration even as the underlying trade agreement remained in place. She also recommends that we formally state our intention to consider labor and environmental circumstances, among other criteria, in selecting countries with which to negotiate. Finally, she proposes a more active effort in non-trade fora to promote labor and environmental standards.

Suggested Approach

There are three sets of considerations that need to be reconciled. First, it is important not to

exacerbate relations with House Democrats over fast track at the same time as budget negotiations are placing strains on party unity. Since any fast track bill with a real chance of passage will fall short of what labor and many House Democrats will demand, waging both fights simultaneously could alienate at the worst moment some of those whose support we will need on the budget.

Second, and related to the first point, our resources will be severely strained if we try to fight two major legislative battles at once. The resource problem extends to your time, which will be extensively required for meetings with Members on both issues. Until the budget situation clarifies one way or the other, a major commitment of senior Administration resources does not seem feasible. (There will also be demands on your time in connection with CWC ratification.)

The third set of considerations pulls in a different direction. Whether we like it or not, the fast-track fight has already begun. Further delay in active Administration efforts to secure fast-track will give opponents time to consolidate their position. Too much delay will leave you headed for South America (October) without this critical trade authority.

In several discussions over the past week, we have concluded that the best approach for at least the next month is to reaffirm visibly your commitment to fast track and to an activist trade policy, while not taking steps that would join the battle over labor and environmental standards. A corollary of this approach is that we would try to freeze any flow of support towards an anti-fast track position by indicating a desire to see if consensus positions on labor and the environment can be worked out.

The elements of this approach are as follows:

- (1) A speech by you that includes an affirmation of your support for fast track and our trade policies and that calls on all sides to see if a consensus can be reached on pursuing free trade agreements while respecting labor and environmental standards. Such a speech is critical for publicly committing to make fast track a priority. We could use your remarks at the American Society of Newspaper Editors this Friday as the venue for this speech.
- (2) A single, early meeting between you and a bi-partisan group of about two dozen Members, in which you make the same statements of support for fast track, and indicate you are asking us to work with them to try to work out consensus positions.
- (3) Charlene and others would continue consultations with others on the Hill in pursuit of the same end.
- (4) We would also work individually with Members to urge that they not commit to an opposing position while we are trying to work out a common view.
- (5) We would bring in labor and environmental groups to be sure they feel thoroughly consulted.
- (6) If the budget process does not move forward rapidly, we would reassess our

position in May; if it does move forward, we would then proceed rapidly to present a bill.

There are risks associated with this approach, to be sure. In particular, our unwillingness to offer a bill or to state our positions on labor and environment may be criticized quickly as avoiding the issue that matters, and our attempt at consensus seen as at best futile and at worst ceding the field to those opposed to fast track. Yet, in the current circumstances, any approach risks harm to our interests on the budget, fast track, or both. In general, your advisors believe that this approach best balances both our interests and the risks.

RECOMMENDATION

That you approve the approach described above.

Approve _____ Disapprove _____ Discuss _____



CHAMBER OF COMMERCE OF THE
UNITED STATES OF AMERICA
1615 H STREET, N.W.
WASHINGTON, D.C. 20062-2000
202/659-6000


AMERICAN FARM
BUREAU FEDERATION
600 MARYLAND AVENUE, S.W., SUITE 800
WASHINGTON, DC 20024
202/484-3600

July 23, 1997

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

We are writing to urge you to work with the Congress to renew fast-track trade negotiating authority by the end of this session of Congress so you and your successor administrations can negotiate trade agreements that would create new opportunities for U.S. businesses and farmers in world markets.

As you know, the absence of fast track authority has already complicated U.S. negotiators' tasks and costs U.S. business and agriculture many opportunities in the western hemisphere and elsewhere. Because U.S. negotiators cannot effectively negotiate without fast-track, our competitors have already begun negotiating trade preferences for each other while U.S. interests are left out. Regaining our credibility at the trade negotiating table is necessary if the United States hopes to avoid further erosion of its competitive position in world markets. Beyond simply attempting to "level the playing field", U.S. negotiators should actively seek to restore and expand U.S. competitive advantages whenever possible.

At the same time, we remain opposed to linkage of that authority to the pursuit of labor, environmental or other non-trade or social agenda issues. Continuing insistence on this linkage is a major reason why we have lost so much ground already. Ill-considered trade sanctions for various non-trade purposes have also cost our nation substantial trade opportunities in recent years. Expanding the list of available justifications for such sanctions through linkage to trade negotiations could effectively cancel whatever benefits those negotiations might yield. And last but not least, few if any of our major trading partners support incorporation of such linkages in any trade agreements they might reach with the United States.

We appreciate the emphasis your administration has placed on international trade. We stand ready to work with you in the months ahead to regain the momentum we all know will serve America well in the 21st century global economy.

Sincerely,



Richard L. Leshner
President
U.S. Chamber of Commerce



Dean Kleckner
President
American Farm Bureau Federation

DIRECT SELLING ASSOCIATION

1666 K Street, NW, Suite 1010, Washington, DC 20006-2808
202/293-5760 • Fax 202/463-4569

July 28, 1997

Mr. Mack McLarty
Senior Advisor to the President and
Special Envoy to the Americas
The White House
Washington, DC

Dear Mack:

Since we last saw each other at the TALC and ASAE meetings, I've been in India where the direct selling market is exploding. In fact, direct selling is growing in all corners of the world including Latin America. We know that in just a handful of countries where statistics are available (Argentina, Brazil, Colombia, Chile, Mexico and Peru) the total amount of retail sales attributable to direct selling is US\$6.7 billion and the number of people realizing meaningful income opportunities from this mode of sales is almost 3 million. Given the impact in these few countries, imagine what direct selling could do for the rest of the hemisphere!

Because of the importance of Latin America to our member companies, the Direct Selling Association is very interested in and supportive of President Clinton's trade initiatives. In particular, we would consider it an honor if you could address our members on the topic of fast-track negotiating authority and NAFTA accessions at a luncheon during our October 22 International Seminar here in Washington. If fast-track has already passed by the October 1997 date (fingers crossed), then your speech could address the same topic as a platform to generate grass-roots support for the President.

In any case, your insight and expertise concerning Latin America would be invaluable and appreciated by this audience. Approximately 100 of our international executives will be in attendance from such companies as Avon, Mary Kay, Amway, Tupperware, etc. (membership list and statistical sheet enclosed). In addition, the Direct Selling Association would be pleased to help you support the President's other trade initiatives as well.

Mack, I would appreciate it if you could fit us into your very busy schedule.

Cordially,



Neil H. Offen
President

xc Andrew Friendly

Enclosure



Worldwide Direct Sales Data

July 8, 1997

	<u>Year</u>		<u>Retail Sales (in U.S. \$)</u>	<u>Number of Salespeople</u>
Argentina	1996	\$	1.004 billion	410,000
Australia	1996	\$	2.02 billion	615,000
Austria	1996	\$	340 million	40,000
Belgium	1996	\$	111 million	13,500
Brazil	1996	\$	3.5 billion	887,000
Canada	1996	\$	1.825 billion	875,000
Chile	1996	\$	180 million	160,000
Colombia	1996	\$	400 million	200,000
Czech Republic	1996	\$	75.5 million	70,000
Denmark	1996	\$	50 million	5,000
Finland	1995	\$	120 million	20,000
France	1996	\$	1.19 billion	166,768
Germany	1995	\$	4.67 billion	191,000
Greece	1996	\$	41 million	25,000
Hong Kong	1995	\$	78 million	98,000
Hungary	1996	\$	53 million	110,000
India	1995	\$	70 million	12,000
Indonesia	1995	\$	192 million	750,000
Ireland	1995	\$	19 million	5,000
Israel	1996	\$	80 million	14,000
Italy	1996	\$	2.12 billion	375,000
Japan	1996	\$	30.2 billion	2,500,000
Korea	1996	\$	1.81 billion	721,560
Malaysia	1996	\$	760 million	1,400,000
Mexico	1996	\$	1.3 billion	1,060,000
Netherlands	1993	\$	130 million	33,750
New Zealand	1996	\$	126.5 million	76,000
Norway	1996	\$	90 million	9,000
Peru	1996	\$	295 million	177,000
Philippines	1996	\$	320 million	630,000
Poland	1996	\$	155 million	220,000
Portugal	1996	\$	57 million	22,800
Russia	1995	\$	300 million	250,000
Singapore	1996	\$	96 million	34,500
Slovenia	1996	\$	58 million	15,500
South Africa	1994	\$	330 million	100,000
Spain	1995	\$	652 million	123,656
Sweden	1996	\$	90 million	50,000
Switzerland	1996	\$	245 million	5,700
Taiwan	1995	\$	1.92 billion	2,000,000
Thailand	1996	\$	800 million	500,000
Turkey	1996	\$	98 million	212,000
United Kingdom	1996	\$	1.396 billion	400,000
United States	1996	\$	19.50 billion	7,200,000
Uruguay	1995	\$	<u>42 million</u>	<u>19,500</u>
TOTAL		\$	78.917 billion	22,803,234

Note: •The People's Republic of China (PRC) Ministry of Internal Trade reported 500,000 salespeople in that country in 1995. These numbers are not included in this survey. The Ministry did not give a report of estimated retail sales for the PRC.

DSA Active Members

as of May 19, 1997



**DIRECT
SELLING
ASSOCIATION**

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202/463-4569 FAX

Achievers Unlimited, Inc.
West Palm Beach, FL

Act II Jewelry, Inc. - Lady
Remington
Bensenville, IL

AdvoCare International
Dallas, TX

Alliance U.S.A. Inc.
Carrollton, TX

AMC Corporation
Stamford, CT

American Coin Collectors,
Inc. (Gold Marketing
Associates)
Orlando, FL

American Communications
Network, Inc. (ACN)
Troy, MI

Amway Corporation
Ada, MI

Applebrook Family
Enrichment Network
Fremont, MI

Art Finds International, Inc.
Indianapolis, IN

Artistic Impressions, Inc.
Lombard, IL

Assured Nutrition Plus
Greenville, OH

Avon Products, Inc.
New York, NY

Body Wise International,
Inc.
Carlsbad, CA

Book of Life
Grand Rapids, MI

Busy Woman's Daily
Planner
Snowflake, AZ

Charmelle
San Francisco, CA

Colesce Couture, Inc.
Dallas, TX

Color Me Beautiful
Chantilly, VA

Conklin Company, Inc.
Shakopee, MN

Cookin' the American Way
(Division of House of Lloyd)
Grandview, MO

The Country Peddlers &
Company of America, Inc.
Alsip, IL

Creative Memories
St. Cloud, MN

CUTCO/Vector Corporation
Olean, NY

Discovery Toys, Inc.
Livermore, CA

DK Family Learning
Orlando, FL

Doncaster
Rutherfordton, NC

DS-MAX U.S.A. Inc.
Irvine, CA

Dudley Products, Inc.
Kernersville, NC

Eagle Distributing
Company, Inc.
Fishees, NY

Ekco Home Products
Company
Westlake Village, CA

Electrolux Corporation
Atlanta, GA

Enrich International
Orem, UT

ENVION International
Nashua, NH

Equinox International
Las Vegas, NV

Excel Communications, Inc.
Dallas, TX

Finesse
Memphis, TN

ForYou, Inc.
Loris, SC

Gold Marketing Associates
Orlando, FL

Golden Neo-Life Diamite
International
Fremont, CA

Golden Pride International
West Palm Beach, FL

Goldlinx USA, Inc.
Mississauga, Ontario

Herbalife International
Los Angeles, CA

Highlights for Children, Inc.
Columbus, OH

Home & Garden Party, Inc.
Marshall, TX

Home Interiors & Gifts, Inc.
Dallas, TX

The Homemakers Idea
Company (Wicker World
Enterprises)
Elk Grove Village, IL

House of Lloyd, Inc.
Grandview, MO

H.Q. International, Inc.
Garland, TX

Hsin Ten Enterprise USA,
Inc.
Plainview, NY

Hy Cite Corporation
Madison, WI

InKNOWvations, Inc.
Natick, MA

Intelligent Nutrients
Minneapolis, MN

Interior Design Nutritionals
(Division of Nu Skin
International)
Provo, UT

Interstate Engineering
Anaheim, CA

Jafra Cosmetics
International, Inc.
Westlake Village, CA

Jeff Campbell HomeLife
Systems
Boca Raton, FL

Jeunesse Cosmetics, Inc.
New York, NY

Jeunique International, Inc.
City of Industry, CA

KareMor International, Inc.
Phoenix, AZ

Kids Only Clothing Club,
Inc.
Calgary, Alberta

The Kirby Company
Cleveland, OH

Kitchen Fair (Regal Ware,
Inc.)
Jacksonville, AR

Kizure Products Company,
Inc.
Compton, CA

Lady Love Skin Care
Plano, TX

Lancie, Inc.
New York, NY

The Learning Journey From
World Book
Chicago, IL

Learning Wonders
Palm Desert, CA

LifeRich Limited Company
Idaho Falls, ID

The Longaberger Company
Dresden, OH

Longevity Network, Ltd.
Henderson, NV

Market America, Inc.
Greensboro, NC

Mary Kay Inc.
Dallas, TX

Mason Shoe Manufacturing
Company
Chippewa Falls, WI

Masterguard Corporation
Dallas, TX

Melaleuca, Inc.
Idaho Falls, ID

Melissa Rice and Company
Houston, TX

Multiples At Home
Dallas, TX

Muscle Dynamics Fitness
Network, Inc.
Torrance, CA

National Telephone &
Communications, Inc.
Irvine, CA

Natural World
Scottsdale, AZ

Nature's Sunshine Products,
Inc.
Provo, UT

Nest Entertainment, Inc.
Irving, TX

New Image International,
Inc.
Georgetown, KY

Newone Cosmetics
Corporation
Los Angeles, CA

Nikken, Inc.
Irvine, CA

Noevir USA, Inc.
Irvine, CA

NSA
Memphis, TN

Nu Skin International, Inc.
Provo, UT

Nutrix International, LLC
Chicago, IL

Oriflame U.S.A.
Los Alamitos, CA

Oxyfresh Worldwide, Inc.
Spokane, WA

Oxygen For Life, Inc.
San Marcos, CA

The Pampered Chef, Ltd.
Addison, IL

PartyLite Gifts, Inc.
Plymouth, MA

Personal Creations Gift
Shows, Inc.
Willowbrook, IL

Petra Fashions, Inc.
Danvers, MA

Pfaltzgraff/Flemington
Outlet Corporation
York, PA

Pola U.S.A., Inc.
Carson, CA

Premier Designs, Inc.
Irving, TX

Primerica Financial Services
Duluth, GA

Princess House, Inc.
North Dighton, MA

PRP Wine International, Inc.
Elk Grove Village, IL

RACHAEL International
Apopka, FL

Regal Ware, Inc.
Kewaskum, WI

Reliv International, Inc.
Chesterfield, MO

Rena-Ware Distributors, Inc.
Redmond, WA

Rexair, Inc.
Troy, MI

Rexall Showcase
International
Boca Raton, FL

Rich Plan Corporation
New York Mills, NY

RMC Group, Inc.
Charlotte, NC

Saladmaster, Inc. (Regal
Ware, Inc.)
Arlington, TX

Seaborne, Inc.
Alpharetta, GA

Shaklee Corporation
San Francisco, CA

Shaperite
Sandy, UT

Society Corporation
Muncie, IN

The Southwestern Company
Nashville, TN

Sportron International, Inc.
Plano, TX

Stef International
Corporation
Mississauga, Ontario

The Story Teller
Salem, UT

Success Motivation Institute
Waco, TX

Sunrider International
Torrance, CA

Symmetry Corporation
Milpitas, CA

Table Charm Corporation
Markham, Ontario

Tiara Exclusives
Dunkirk, IN

Totally Tropical Interiors,
Ltd.
Calgary, Alberta

Tupperware Corporation
Orlando, FL

United Consumers Club,
Inc.
Merrillville, IN

U.S. Safety & Engineering
Corporation
Sacramento, CA

USANA, Inc.
West Valley City, UT

Usborne Books at Home
Tulsa, OK

Vantel Pearls in the Oyster
Foxboro, MA

Vita Craft Corporation
Shawnee, KS

Viva America Marketing,
Inc.
Costa Mesa, CA

Watkins Incorporated
Winona, MN

Weekender Casual Wear,
Inc.
Buffalo Grove, IL

The West Bend Company
West Bend, WI

Wicker Plus, Ltd.
Germantown, WI

World Book, Inc.
Chicago, IL

Youngevity, Inc.
Dallas, TX

To: Andrew Friendly

U. P.

THE WHITE HOUSE
WASHINGTON

August 3, 1997

Mr. W. Henson Moore
President & CEO
American Forest & Paper Association
1111 19th Street, NW, Suite 800
Washington, DC 20036

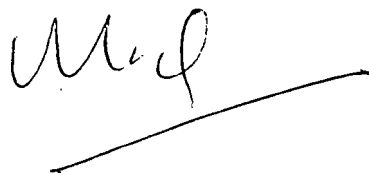
Dear Henson:

Your thoughtful and comprehensive letter of July 29th is received, and noted. It was my pleasure to be with you and your TALC colleagues and, of course, I appreciated your kind words about my presentation.

I have conveyed your letter to the appropriate people in the Administration so that some of your well reasoned points might be fully and further considered as we move forward with our trade agenda, including fast track legislation.

As always, it was good to be with you. We have enjoyed a long and good relationship and, despite being of different parties, have agreed more often than we disagreed over the years.

Personally,



cc: Jay Berman
Vicki Radd
(w/ full package)
Peter O'Keefe
(w/ full package)
Andrew Friendly
(w/ full package)
Nelson Cunningham

bcc: Donna
Desh


AMERICAN FOREST & PAPER ASSOCIATION

Office of the President

July 29, 1997

The Honorable Thomas F. McLarty III
 Special Envoy to the Americas
 The White House
 1600 Pennsylvania Avenue, N.W.
 Washington, D.C. 20500

Dear Mack:

I enjoyed seeing you and hearing your comments at the TALC breakfast July 17th. You were very impressive and did an admirable job representing the Administration to business associations. I am very glad you are close to the President and at the White House.

You are absolutely correct that in general our domestic market is mature and growth will come through expanded trade. That is certainly true with our industry. We are a heavy industry and the biggest in the world, yet we export only about 12% of our production. As outlined in the enclosed white paper, our industry faces an array of public policy challenges which undermines our ability to capture a share of these faster growing export markets commensurate with our fundamental competitiveness. Foremost among these are the tariff barriers maintained by our trading partners in Europe and Asia.

Our concern with fast track is that it must give recognition and emphasis to the unfinished business of the Uruguay Round in achieving a tariff-free global market for wood and paper products. As a result of the Round, U.S. and Canadian tariffs on these products are at a near zero but the EU, Japan and the APEC countries (including China especially) retain tariffs which are high enough to preclude effective import competition. These tariffs also provide a sanctuary home market base for building capacity, much of it targeted at the tariff-free U.S. domestic market. We will be working to make sure that the President has the kind of fast track authority which will make the elimination of this inequity an urgent priority. I am also enclosing some suggestions for specific legislative language on this point.

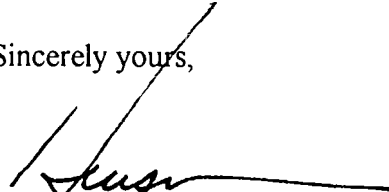
We are also increasingly concerned that our labor and environmental costs exceed those of many third world countries especially those, such as Indonesia, where massive government investments in paper capacity have created a world-class, globally competitive industry. That was the reason for my question about your plans for labor and environmental provisions. We and, I suspect, other heavy industries, may have a changing view of such provisions. If you are interested, I would be happy to visit with you on this point and determine if others share this attitude.

Handwritten notes:
 Neil ✓
 D...
 P...
 Jan B/Vicki
 Let's 0.1 week

The Honorable Thomas F. McLarty III
July 29, 1997
Page 2

On a closing note, I will never forget our conversation at the Alfalfa Club Dinner in 1991 on the forthcoming Presidential campaign. Just shows how much I know about politics! With kindest personal regards, I remain,

Sincerely yours,



W. Henson Moore
President & CEO

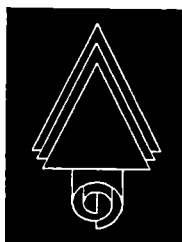
WHM:gp

Enclosure

U.S. Forest Products Industry: Competitive Challenges in the Global Marketplace

*America's Forest & Paper People
Improving Tomorrow's Environment TodaySM*

A F & P A



American Forest & Paper Association
1111 19th St., NW, Suite 800
Washington, DC 20036

July 31, 1997

INTRODUCTION

The U.S. forest products industry has many important assets: a productive work force, an abundant and expanding domestic fiber base, modern plant and equipment, and cutting-edge technology. In 1993, these factors led *Fortune* magazine to name the U.S. paper industry as one of the nation's two most competitive industries.

To maintain this position the **forest products industry must continue to compete aggressively in the domestic marketplace and globally...a growth frontier.** The industry welcomes this challenge and is committed to free and fair open markets like those provided to foreign forest products manufacturers here in the United States.

The ability to remain competitive at home and to access markets abroad is not only important to the health of the industry but it is vital to the U.S. economy, which depends heavily on the forest products sector for its continuing progress and prosperity.

The competitiveness of the industry is being threatened. U.S. government policies penalize wood and paper manufacturers with an onerous and expensive tax system, one that also discourages forest-related investments. Government policies are also producing environmental regulations for which the costs increasingly outweigh the benefits. These regulations come despite vigorous and effective programs developed and financed by the industry to safeguard the environment.

The U.S. forest products industry is denied open and fair access to foreign markets by high tariffs and by non-tariff barriers. At the same time, foreign competitors are advantaged by subsidized wood costs, low wages and comparatively lax enforcement of environmental regulations.

More even-handed policies must be adopted at home and negotiated abroad that allow U.S. wood and paper products manufacturers to compete in all markets on an equal footing with their foreign counterparts.

The following pages present an overview of the current situation in the global marketplace, review the role the forest products industry plays in the domestic economy, and pinpoint the policy-related obstacles to competitiveness the industry faces in the areas of foreign market access, taxation and environmental regulation. Public policy recommendations aimed at fostering competitiveness are offered in the concluding remarks.

I. U.S. MARKET OPEN TO FOREIGN FOREST MANUFACTURERS

The U.S. forest products marketplace is open to foreign wood and paper products. The U.S. industry encourages competition in both the domestic and foreign markets allowing all parties to provide consumers with superior products at the most economical prices.

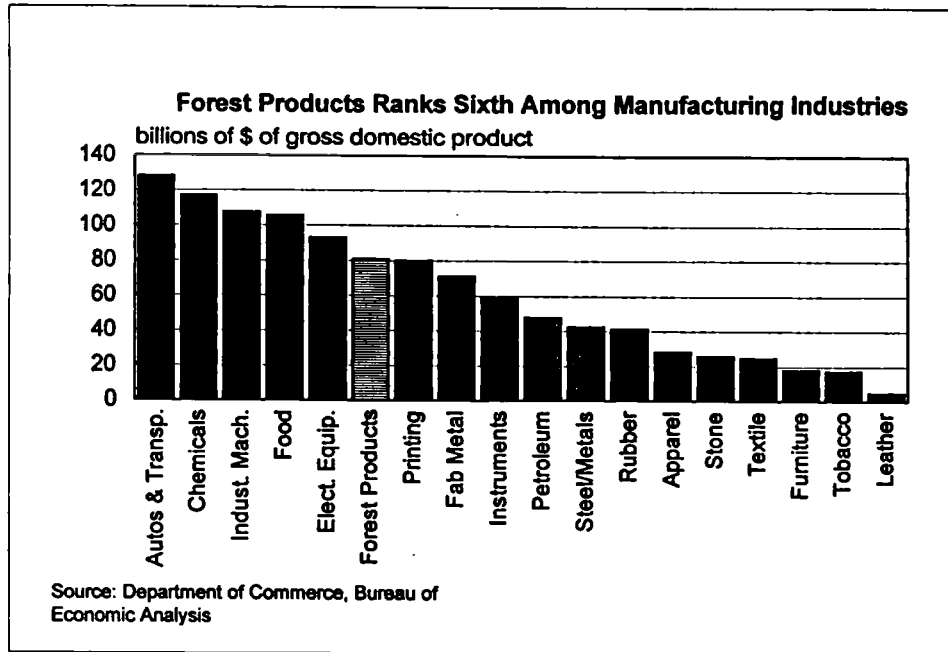
- **U.S. imports of softwood lumber reached a record high of more than 18 billion board feet in 1996 and accounted for 36 percent of U.S. consumption.**
- **U.S. paper imports totaled 14.4 million short tons in 1996, up from approximately 8 million tons in the early 1980s, an increase of 80 percent.**
- **U.S. consumption of imported paper increased from 12 percent of consumption in the early 1980s to 16 percent by the mid-1990s.**
- **European producers shipped 520,000 tons of coated groundwood printing paper to the U.S. in 1995, representing more than 10 percent of U.S. purchases.**
- **Imports of high value-added printing and writing papers rose to 5.6 million tons in 1995, up from less than 1 million tons in the early 1980s.**
- **U.S. paper market is among the most open in the world with close to 90 percent of the \$11.5 billion in paper and paperboard imported in 1996 entering the U.S. duty free.**

II. FOREST PRODUCTS INDUSTRY CRITICAL TO HEALTH OF DOMESTIC ECONOMY

A prosperous, fully competitive forest products industry is critical to the overall vitality and progress of the U.S. economy.

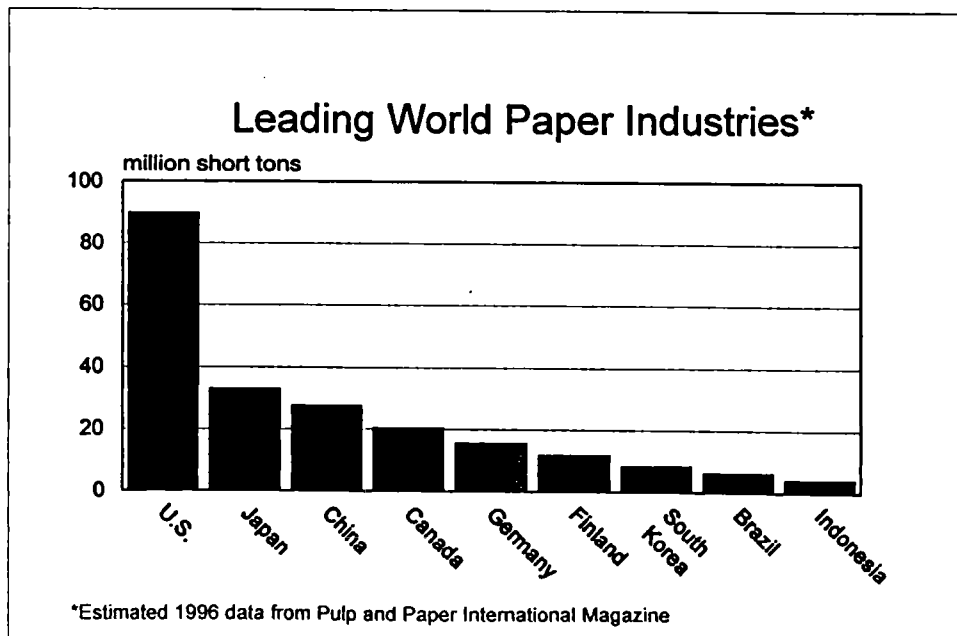
- **Industry products contribute more than \$230 billion to U.S. GDP.**

- **Industry ranks sixth among domestic manufacturing sectors based on its contribution to the GDP, and it accounts for more than 7 percent of manufacturing shipments.**



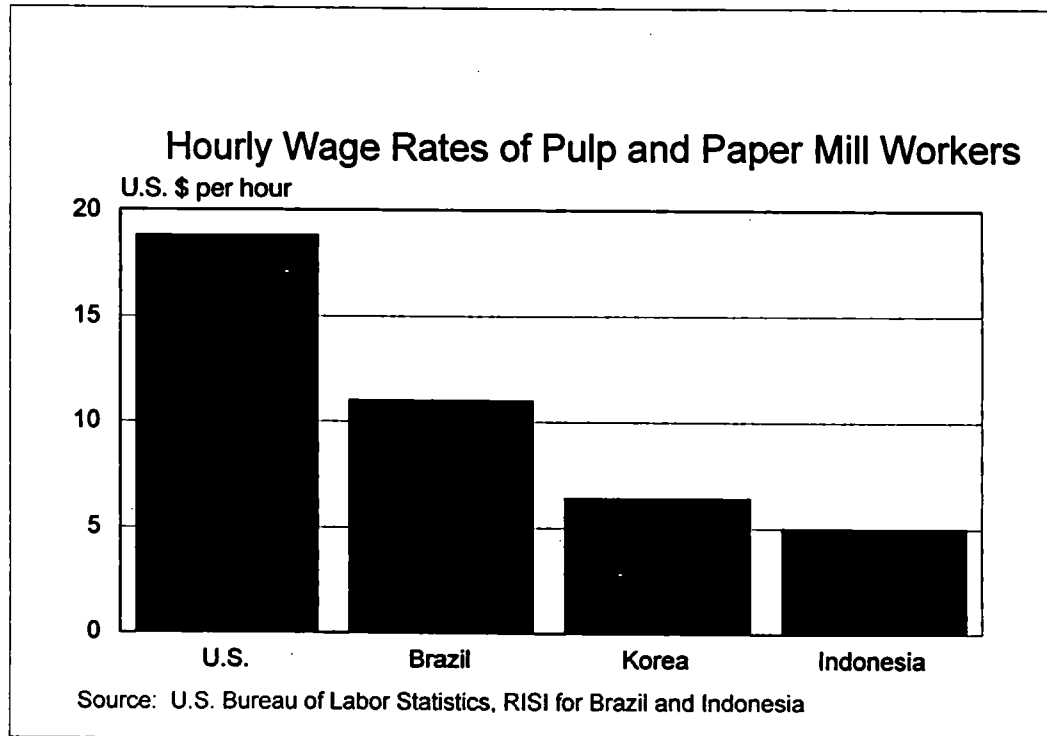
- **U.S. is the world's largest producer of both solid wood products and paper and paperboard.**

U.S. production of paper and paperboard exceeds the combined total of the next three largest producing nations combined.



Forest products industry **employs 1.6 million people** and ranks among the top ten manufacturing employers in 46 states.

The industry provides its workforce with an **above average standard of living**. Non-supervisory employees at paper and paperboard mills average \$19 an hour according to the Bureau of Labor Statistics.



- Exports of primary pulp, paper, paperboard and wood products **totaled \$17 billion**, accounting for 12 percent of sales.

III. OBSTACLES TO COMPETITIVENESS

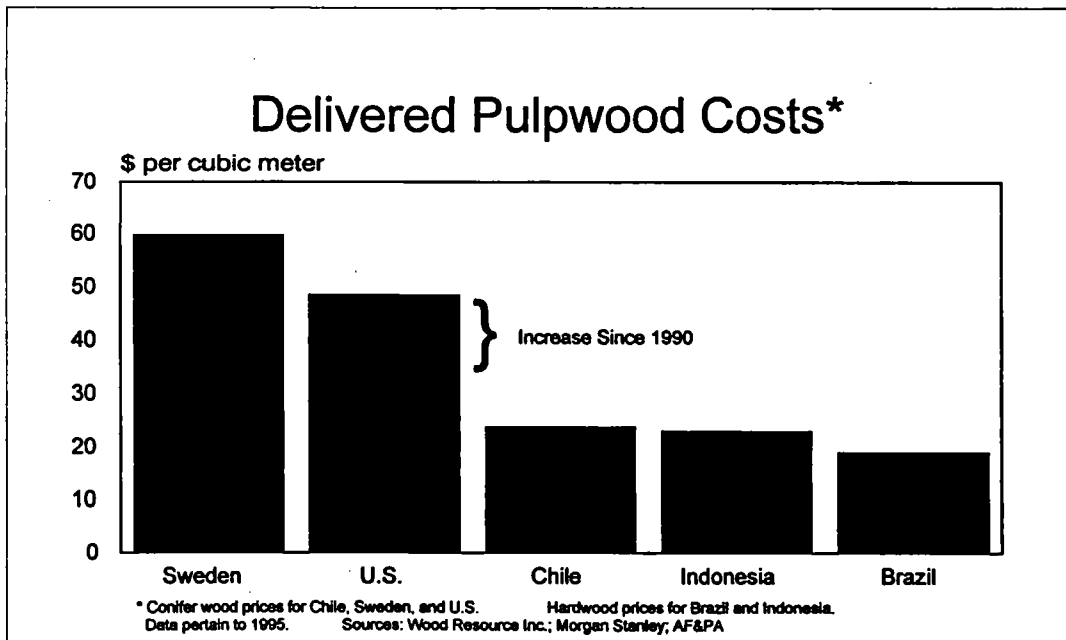
While our forest products market remains open to foreign competition, government acts --ranging from ill-advised domestic policies to foreign protectionism--have been placed in the path of domestic producers threatening the competitiveness of the industry.

A. Public Policy: Constraining the Efficient Management of Wood Resources

- For more than 50 years, U.S. forest growth has exceeded harvest--today growth exceeds harvest by 33 percent--but **wood supply constraints are threatening the industry's competitiveness.**
- Since the 1980s, environmental litigation and administrative direction have **reduced timber availability from federal lands by more than 75 percent.**
- Federal, state and local regulation of private forest land, intended to protect endangered species and wetlands, often **has the opposite effect**, while severely restricting access to fiber and timber.

Given the restrictive and often counterproductive results of regulation under the **Endangered Species Act**, some landowners have been compelled to harvest timber prematurely to avoid creating habitat for endangered and threatened species.

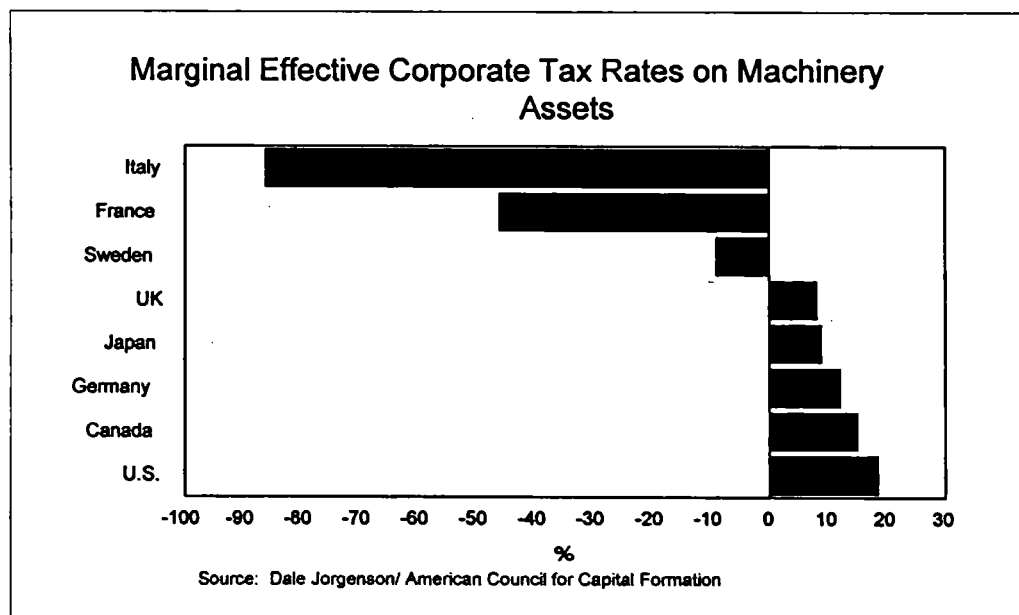
- Reduced harvest levels on public lands and enforcement of the Endangered Species Act have **raised U.S. pulpwood costs**, which were already significantly higher than those of competitor nations in the southern hemisphere.



Public Policy: U.S. Tax System Impedes Ability of Companies to Compete Abroad

- This year's budget and tax agreement provides a measure of relief from tax-related impediments to competitiveness, **but does not go far enough.**
- The structure of the U.S. tax code, which includes double taxation of dividend income, lack of border adjustability, and inadequate capital recovery, makes for comparatively high marginal tax rates on capital income. These high marginal rates **discourage investment in plant, equipment and sustainable forestry.**

A study by Harvard Professor Dale Jorgenson found that U.S. corporations have an average effective tax rate of 18.5 percent on equipment investments compared with 8.8 percent in Japan and 8.0 percent in the United Kingdom. Tax rates on equipment-related investment are actually negative in Italy, France and Sweden.



The paper industry's rate of return on capital has consistently lagged behind that of the S&P 500 during the past two decades and its debt-to-assets ratio is about 60 percent above the all-manufacturing average. The high level of debt reflects the massive capital outlays the industry has undertaken to remain competitive in the face of rapid technology change and rising foreign competition.

- Corporate capital gains rates are higher in the U.S. than in most competitor nations, according to the American Council for Capital Formation (ACCF).
- **Some developing nations, such as Indonesia, have established tax holidays for new investments in export-oriented industries.**
- Restrictions in the U.S. tax code often result in the double taxation of income earned from international operations. Other nations often entirely exempt such income from tax.
- U.S. tax rules for the income earned from foreign operations are among the most complicated in the world, and the expense of complying with these rules represents a substantial cost to U.S. corporations.

C. Public Policy: Environmental Protection

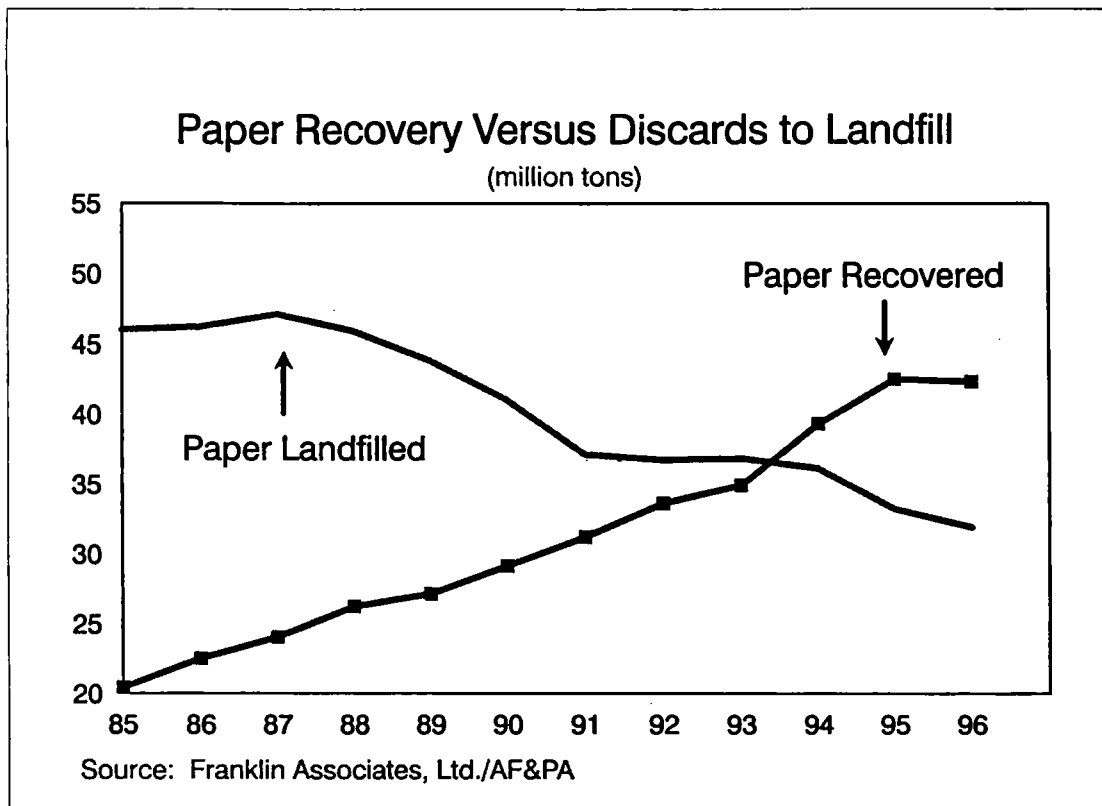
- The forest products industry has a substantial stake in the **preservation and protection of the environment.**

From 1990 through 1994, the **industry spent more than \$1 billion each year** on environmental capital improvements. In 1995, environmental capital expenditures came to \$619 million.

Through 1995, overall capital investments for environmental protection in the pulp and paper industry **totaled more than \$14.5 billion.**

- The industry's commitment to continuous environmental improvements is demonstrated through a range of accomplishments, many of which are voluntary. These initiatives represent significant environmental investments:

The industry adopted a 40 percent paper recovery goal during the early 1990s, and when that was achieved--ahead of schedule--a more ambitious 50 percent recovery goal was set for the year 2000. **More paper is now recovered for recycling than is sent to landfills.**



Sustainable Forestry Initiative (SFI)--a mandatory, comprehensive system of principles, guidelines and performance measures that integrates the perpetual growing and harvesting of trees with the protection of wildlife, plants, soil, air and water quality--was launched in 1994 by AF&PA member companies.

Industry embarked on a voluntary basic research program with the federal government called **"Agenda 2020"** designed to stimulate a variety of innovations to accomplish continuous environmental and energy improvements in manufacturing and forestry.

Industry had an 80 percent participation rate--**highest of any industry**--in EPA's "33/50" program to achieve a 50 percent reduction in the release of 17 priority chemicals.

Amount of fresh water used to produce paper has been **reduced by more than 70 percent per ton** since 1959.

Since 1988, dioxin from pulp bleaching has been **voluntarily reduced by more than 94 percent** to less than 2.5 ounces annually for the entire U.S. industry.

Ninety-eight percent of U.S. bleached pulp and paper mills **report below EPA's "minimum level"** for dioxin in effluent.

Air pollution control devices now **remove more than 97 percent** of particulate matter.

Emissions of sulfur compounds, the primary source of nuisance odors, have been **reduced by 90 percent** since 1968.

Amount of fossil fuel used to produce a ton of paper has been cut about 38 percent and **co-generation now accounts for 54 percent** of total in-plant electricity generation.

Approximately **three-quarters of the energy** consumed in the production of solid wood products is self-generated.

Industry has pledged to follow a comprehensive code of Environmental, Health and Safety Principles and Guidelines for its manufacturing facilities, which represents its **commitment to continuous, voluntary environmental improvement.**

- Despite responsible environmental stewardship by the industry, **stiff federal and state regulation is imposing exorbitant costs on wood and paper manufacturers--without demonstrated environmental benefits--and this is seriously undermining the competitiveness of the industry.**

Under the Environmental Protection Agency's (EPA) proposed Cluster Rule, the paper industry will incur **additional capital costs of from \$2.8 billion to \$5.2 billion in Phase I. A second phase of the Cluster Rule will require additional costs.**

EPA has stated its **intention to propose MACT II (combustion sources)** simultaneously with publication of the final Cluster Rule.

EPA is developing MACT standards for wood products manufacturing that could add **capital costs in excess of \$1 billion.**

Industry outlays for the Great Lakes Initiative could run to **\$1.25 billion. .** (This projections could be somewhat lower because additional flexibility is built into the final rule.)

Additional costs are expected from other proposed regulations, such as **increased reporting requirements** under SARA Title III, revised air quality standards for particulates and ozone, and the industrial combustion coordinated rule.

Complying with regulatory requirements such as Title V air permits **add to the burden.**

D. Foreign Protectionism

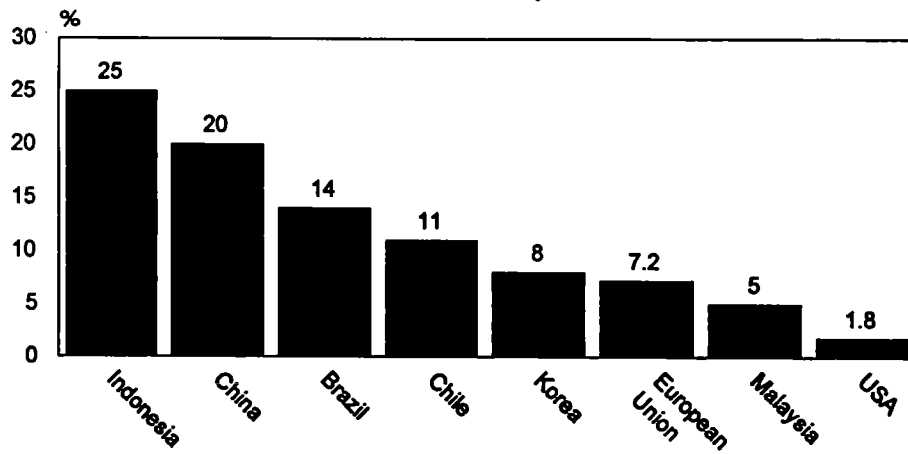
- **High tariffs restrict the ability of U.S. wood and paper suppliers to export to traditional markets and prevent them from taking full advantage of more vigorous demand growth in developing countries.**

Many countries impose steep tariffs on high value added products -- such as lumber, mouldings, wood doors and windows -- but allow raw materials to enter at zero or low duties. This practice -- known as tariff escalation -- effectively transfers jobs from U.S. mills to protected markets and robs U.S. suppliers of the most profitable segments of the business.

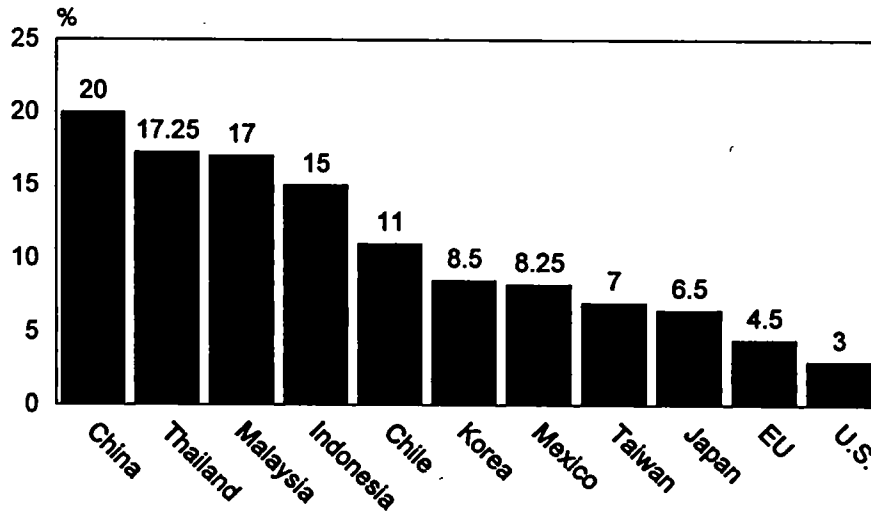
Tariff rates as high as 7.2 percent imposed by the European Union (EU) on top of high shipping costs **place U.S. paper suppliers at a competitive disadvantage.**

Producers in Nordic countries, in South America and in the Far East **use the protection provided by high tariff walls** to vastly expand paper production, largely geared to export markets, including the U.S. market.

Tariff Rates On Paper Products

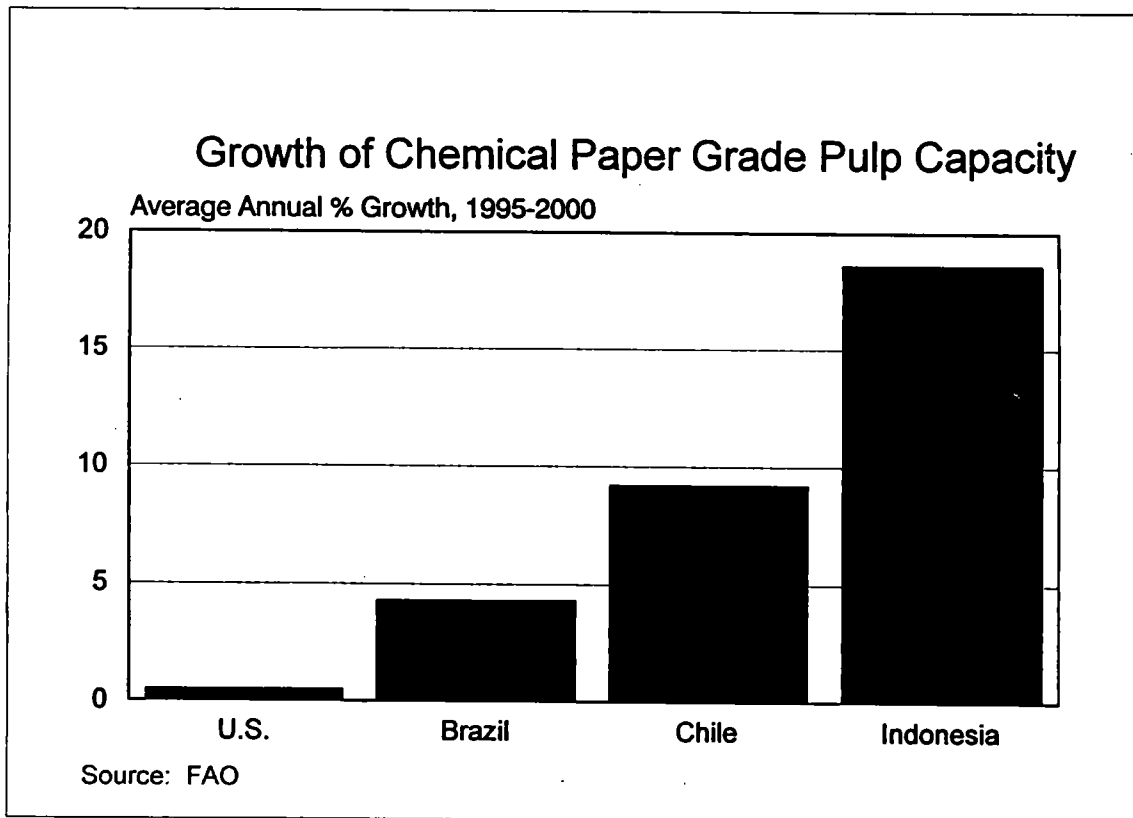


Average Tariff Rates On Wood Products



E. Foreign Government Policies Discriminate in Favor of Home Forest Products Industries

- Many of our trading partners--recognizing the competitive strengths of U.S. paper and wood suppliers--have **erected stiff trade barriers**.
- A number of fiber-rich developing countries--notably Brazil, Chile, Indonesia and Malaysia--are building world class forest products industries **with substantial support from their governments**. This support includes: low wages and low labor standards; financial subsidies and tax breaks; lax enforcement of environmental regulations; and failure to operate on the basis of sustainable forestry principles.



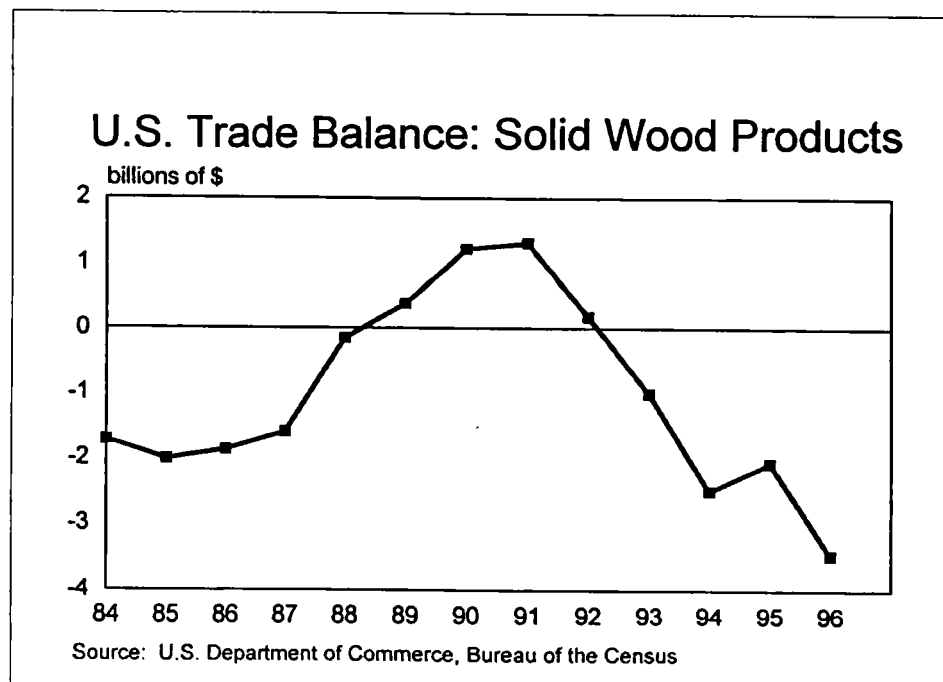
- The Japanese restrict access to its wood and paper markets.
- Japanese policies support home paper manufacturing and employment through **collusive business practices**; close relationships between paper manufacturers, distributors and end users; and lax enforcement of anti-competition laws.

Imports from the U.S. have been stuck at about 2 percent of Japanese consumption despite significant cost advantages.

Total imports account for only 5 percent of paper consumption, **the lowest level of all industrialized nations.**

Wood imports are restricted by high tariffs on value-added products and by restrictive building codes and standards.

- Finnish and other Nordic paper producers--our top competitors--have **used the EU as a sanctuary home market** by taking advantage of duty free entry to the EU, installing huge paper capacity dedicated to export markets, and by benefiting from government targeting.
- U.S. trade balance with respect to solid wood products **has deteriorated sharply** since the early 1990s.



F. U.S. Government Policies Assist Emerging Competitors

- U.S. supported Export-Import Bank continues to provide financing for paper-making machinery **procurement by competitors that maintain tariff and non-tariff barriers against U.S. products.**
- **The U.S. Generalized System of Preferences gives forest products suppliers in Brazil, Indonesia, and Thailand tariff free access to the U.S. market, while these countries impose high tariffs on U.S. forest product exports.**

CONCLUSION

Like other competitive American industries, the U.S. forest and paper industry must tap into fast growing export markets to survive in the global economy. U.S. management and workers have made the investments and taken the steps necessary to ensure high productivity, competitive costs, and superior quality. At the same time, government actions--domestic policies that penalize investment and protectionist trade policies of foreign competitors--make it impossible to translate these advantages into export sales and earnings on any equitable scale, and require an urgent and comprehensive public policy response.

TRADE: FOREST PRODUCTS TARIFF INITIATIVE

The U.S. must adopt a comprehensive international trade policy aimed at achieving global tariff free trade and a level international playing field for U.S. forest products suppliers. The elimination of tariff and non tariff barriers worldwide for U.S. wood and paper products will ensure continuing growth in the industry's sales, and the high paying U.S. jobs they support. A pro-export trade initiative for the U.S. forest products industry must include the following critical elements:

- o Successful conclusion of tariff negotiations with the EU, Japan and APEC to achieve the elimination of tariffs on substantially all world trade in wood and paper products by the year 2000.
- o An aggressive and effective strategy to achieve the elimination of anticompetitive practices and the opening of the Japanese paper market--the second largest in the world--as an explicit priority in the bilateral relationship with Japan.
- o A commitment to use all available policy options--including the denial of preferential tariff benefits under the U.S. Generalized System of Preferences (GSP) to developing countries with world class forest products industries--such as Indonesia and Brazil--which maintain high tariff barriers against competition from U.S. forest products.
- o Achievement of the immediate removal of tariffs and non tariff barriers on U.S. forest products as a precondition for Chinese and Russian accession to the World Trade Organization.

- o Full integration of international programs of non-trade agencies which confer benefits on overseas competitors -- including Export/Import Bank and OPIC -- into market access strategies.**

- o A thoroughgoing appraisal of the extent to which higher U.S. environmental compliance costs undermine the international competitiveness of U.S. industries, and development of market-oriented strategies to level the international playing field in this area.**

July 1997

**PROPOSED LEGISLATION DESIGNED TO ELIMINATE
FOREIGN TRADE BARRIERS TO U.S. WOOD AND PAPER EXPORTS**

AFPA's draft proposed legislation sets forth specific objectives and authority for U.S. trade negotiations which are designed to provide maximum leverage for eliminating foreign barriers to U.S. wood and paper exports.

- **Negotiating Objectives.** The proposed legislation sets as a principal negotiating objective the prompt reduction or elimination of specific tariff and nontariff barriers for those sectors in which (1) the United States imposes zero or *de minimis* tariffs, and (2) our major trading partners maintain substantial tariff barriers, including, specifically, wood and paper.
- **Tariff Proclamation Authority.** To increase U.S. leverage to negotiate the elimination of foreign wood and paper tariffs, the legislation grants the President new authority to eliminate U.S. tariffs that are as high as 25 percent in order to implement trade agreements whereby foreign countries agree to eliminate on a reciprocal basis significant tariffs (including escalating tariffs on value-added products) on U.S. exports in sectors, such as wood and paper, where the United States imposes zero or *de minimis* tariffs. The tariff authority would give the Administration the ability to offer our trading partners concessions in other sectors in order to obtain wood and paper tariff elimination.
- **Free Trade Negotiating Authority.** The legislation provides the President with fast track authority for future free trade agreements, subject to the condition that any such agreements must include a provision guaranteeing that U.S. wood and paper exports to U.S. free trade partners will be treated no less favorably than wood and paper exports from any other country.

DETERMINED TO BE AN ADMINISTRATIVE
MARKING Per E.O. 13526

Sec. 3.2(C) Initials: OB Date: 3/18/19

DRAFT of July 7, 1997

PROPOSED TRADE NEGOTIATING OBJECTIVES
AND FAST TRACK/TARIFF PROCLAMATION AUTHORITY

SEC. 101. OVERALL AND PRINCIPAL TRADE NEGOTIATING OBJECTIVES OF
THE UNITED STATES.

(a) OVERALL TRADE NEGOTIATING OBJECTIVES.--The overall trade
negotiating objectives of the United States are--

(1) to obtain more open, equitable, and reciprocal
market access;

(2) to reduce or eliminate barriers and other trade-
distorting policies and practices on a basis which assures
substantially equivalent competitive opportunities for the
commerce of the United States;

(3) to ensure fairness and equity in international trade
by reducing or eliminating tariff and nontariff barriers in
foreign countries in those sectors where the United States
imposes no significant barriers to imports, particularly in
those instances where the foreign countries' tariff and
nontariff barriers are substantial;

(4)

(b) PRINCIPAL TRADE NEGOTIATING OBJECTIVES.--

(1) MULTILATERAL NEGOTIATIONS.--The principal
negotiating objectives of the United States with respect to
multilateral negotiations are--

(A) to obtain as soon as possible reciprocal tariff
and nontariff barrier elimination agreements under the
auspices of the WTO, especially for those products which
were the subject of reciprocal duty elimination or

1 harmonization negotiations during the Uruguay Round of
2 multilateral trade negotiations and especially for those
3 products in which foreign countries maintain substantial
4 tariff and non-tariff barriers;

5 (B)

6 (2) SECTORAL NEGOTIATIONS.--The principal negotiating
7 objectives of the United States with respect to sectoral
8 negotiations are--

9 (A) to obtain competitive opportunities for United
10 States exports in foreign markets substantially
11 equivalent to those afforded to foreign products in the
12 United States;

13 (B) to obtain the prompt reduction or elimination
14 of specific tariff and nontariff barriers, especially
15 with respect to those sectors in which the United States
16 imposes zero or de minimis tariffs and especially with
17 respect to those sectors in which major trading partners
18 maintain substantial tariff barriers, including, for
19 example, wood and paper;

20 (C)

21 (3) BILATERAL AND REGIONAL NEGOTIATIONS.--The principal
22 negotiating objectives of the United States with respect to
23 bilateral and regional negotiations are--

24 (A) to obtain more open, equitable, and reciprocal
25 market access for United States exports in those foreign
26 countries, the opening of whose markets has the greatest

1 potential to increase United States exports and foreign
2 direct investment;

3 (B) To obtain competitive opportunities for United
4 States exports in foreign markets substantially
5 equivalent to those afforded to foreign products in the
6 United States;

7 (C) to obtain the reduction or elimination of
8 specific tariff and nontariff barriers, especially with
9 respect to those sectors in which the United States
10 imposes zero or de minimis tariffs and especially with
11 respect to those sectors in which foreign countries
12 maintain substantial tariffs, including, for example,
13 wood and paper;

14 (D) to obtain treatment for United States exports
15 and foreign direct investment in the foreign countries
16 that are party to such agreements which is, and will be
17 in the future, no less favorable than that accorded to
18 the exports or investment of any countries not party to
19 such agreements;

20 (E)

21 SEC. 102. TRADE AGREEMENT NEGOTIATING AUTHORITY.

22 (a) AGREEMENTS REGARDING TARIFF BARRIERS.--

23 (1) Whenever the President determines that one or more
24 existing duties or other import restrictions of any foreign
25 country or the United States are unduly burdening and
26 restricting the foreign trade of the United States and that

the purposes, policies, and objectives of this Act will be promoted thereby, the President--

(A) before July 1, 2005, may enter into trade agreements with foreign countries; and

(B) may, subject to paragraph (2), proclaim--

(i) such modification of any duty,

(ii) such other staged rate reduction of any duty, or

(iii) such additional duties;

as he determines to be necessary or appropriate to carry out such trade agreement.

(2) (A) Except as provided in subparagraph (B) below, no proclamation may be made under subsection (a) that--

(i) reduces any rate of duty (other than a rate of duty that does not exceed 5 percent ad valorem on the date of enactment of this Act) to a rate which is less than 50 percent of the rate of such duty that applies on such date of enactment; or

(ii) increases any rate of duty above the rate that applies on such date of enactment.

(B) Subject to the consultation and layover requirements of [section 115 of the Uruguay Round Agreements Act], the President may proclaim the elimination, modification or staged rate reduction of any duty (other than a rate of duty that exceeds 25 percent ad valorem on the date of enactment of this Act)

1 if the President determines and certifies to the
2 Congress that--

3 (i) a foreign country has agreed to the
4 elimination of a significant duty on U.S. exports
5 of an article contained in a tariff category for
6 which the United States bound rate of duty in
7 Schedule XX [of the United States annexed to the
8 Marrakesh Protocol to the GATT 1994] is free or de
9 minimis;

10 (ii) the elimination, modification or staged
11 rate reduction of the duty imposed by the United
12 States is necessary and appropriate to provide for
13 equitable and reciprocal market access for exports
14 of the United States and the foreign country; and

15 (iii) the overall agreement is beneficial to
16 the commercial interests of the United States.

17 (3) A rate of duty reduction or increase that may not be
18 proclaimed by reason of paragraph (2) may take effect only if
19 a provision authorizing such reduction or increase is
20 included within an implementing bill provided for under
21 [section 1103 of the Omnibus Trade and Competitiveness Act of
22 1988] and that bill is enacted into law.

23 (4) A trade agreement may be entered into under the
24 subsection only if such agreement makes progress in meeting
25 the applicable objectives described in section 101.

26 (b) AGREEMENTS REGARDING NONTARIFF BARRIERS.--

1 (1) Whenever the President determines that any barrier
2 to, or other distortion of, international trade or foreign
3 direct investment--

4 (A) unduly burdens or restricts the foreign trade
5 of the United States or adversely affects the United
6 States economy; or

7 (B) the imposition of any such barrier or
8 distortion is likely to result in such a burden,
9 restrictions, or effect;

10 and that the purposes, policies, and objectives of this Act
11 will be promoted thereby, the President may, before July 1,
12 2005, enter into a trade agreement with foreign countries
13 providing for--

14 (i) the reduction or elimination of such barrier or
15 other distortion; or

16 (ii) the prohibition of, or limitations on the
17 imposition of, such barrier or other distortion.

18 (2) A trade agreement may be entered into under the
19 subsection only if such agreement makes progress in meeting
20 the applicable objectives described in section 101.

21 (c) BILATERAL AND REGIONAL AGREEMENTS REGARDING TARIFF AND
22 NONTARIFF BARRIERS.--

23 (1) Before July 1, 2005, the President may enter into
24 bilateral or regional agreements with foreign countries that
25 provide for the elimination or reduction of any duty imposed
26 by the United States. A trade agreement entered into under
27 this paragraph may also provide for the reduction or

elimination of barriers to, or other distortions of, the international trade or foreign direct investment of the foreign country or countries or the United States.

(2) Notwithstanding any other provision of law, no trade benefit shall be extended to any country by reason of the extension of any trade benefit to another country under a trade agreement entered into under paragraph (1) with such other country, unless the country receiving the benefit is also party to the trade agreement.

(3) A trade agreement may be entered into under paragraph (1) with any foreign country or countries only if--

(A) the agreement makes progress in meeting the applicable objectives described in section 101;

(B) such foreign country requests the negotiation of such an agreement;

(C) the agreement provides for treatment for United States exports and foreign direct investment in the foreign country or countries that are party to the agreement which is, and will be in the future, no less favorable than that accorded to the exports or investment of any countries not party to the agreement; and

(D) the President, at least 60 days before the date notice is provided under [section 1103(a)(1)(A) of the Omnibus Trade and Competitiveness Act of 1988]--

(i) provides written notice of such negotiations to the Committee on Finance of the

Senate and the Committee on Ways and Means of the
House of Representatives, and
(ii) consults with such committees regarding
the negotiation of such agreement.

(4) The 60-day period of time described in paragraph
(3) (D) shall be computed in accordance with [section 1103(e)
of the Omnibus Trade and Competitiveness Act of 1988].

(d) CONSULTATION WITH CONGRESS BEFORE AGREEMENTS ENTERED
INTO.--

(1) Before the President enters into any trade agreement
under subsection (b) or (c), the President shall consult
with--

(A) the Committee on Ways and Means of the House of
Representatives and the Committee on Finance of the
Senate; and

(B) each other committee of the House and the
Senate, and each joint committee of the Congress, which
has jurisdiction over legislation involving subject
matters which would be affected by the trade agreement.

(2) The consultation under paragraph (1) shall include--

(A) the nature of the agreement;

(B) how and to what extent the agreement will
achieve the applicable purposes, policies, and
objectives of this Act; and

(C) all matters relating to the implementation of
the agreement under [section 1103 of the Omnibus Trade
and Competitiveness Act of 1988].

1 (3) If it is proposed to implement two or more trade
2 agreements in a single implementing bill under [section 1103
3 of the Omnibus Trade and Competitiveness Act of 1988], the
4 consultation under paragraph (1) shall include the
5 desirability and feasibility of such proposed implementation.

6
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DRAFT of July 7, 1997

PROPOSED FAST TRACK LEGISLATIVE HISTORY

Sec. 101. Overall and Principal Trade Negotiating Objectives of the United States.

Section 101 contains a new statutory statement of the overall and principal objectives of the United States in trade negotiations. These are intended to update the objectives set forth in the Omnibus Trade and Competitiveness Act of 1988 (1988 Trade Act), which were intended primarily to address the then ongoing Uruguay Round negotiations. With the conclusion of the Uruguay Round, as well as the North American Free Trade Agreement (NAFTA) and the recent Information Technology Agreement, it is appropriate that a new set of objectives for U.S. trade negotiations be established.

Overall Negotiating Objectives. In keeping with previous statements in the 1988 Trade Act and the Trade Act of 1974, section 101(a) first sets forth the overall U.S. trade negotiating objectives. These are to obtain more open, equitable, and reciprocal market access; to reduce or eliminate barriers and other trade-distorting policies and practices on a basis which assures substantially equivalent competitive opportunities for the commerce of the United States; and to ensure fairness and equity in international trade by reducing or eliminating tariff and nontariff barriers in foreign countries in those sectors where the United States imposes no significant barriers to imports.

Specific reference is given in the overall negotiating objectives to the problem of disparities in tariff and nontariff barriers between the United States and foreign countries. As a result of the last 50 years of GATT negotiations, the United States has substantially reduced or eliminated its tariffs with respect to many significant sectors of the economy. Unfortunately, a number of our trading partners continue to impose significant tariffs on U.S. exports in these same sectors. During the Uruguay Round, the United States sought to eliminate these disparities through the reciprocal elimination of duties among major trading countries in a wide range of sectors of key interest to U.S. firms. While this "zero-for-zero" initiative was successful in some sectors, agreement on complete duty elimination was not achieved in others, including paper and wood products.

In the Uruguay Round Agreements Act (URAA), and in the Statement of Administrative Action (SAA) accompanying the URAA, both the Congress and the Administration emphasized the importance of obtaining further reductions and elimination of duties in these sectors as a priority objective U.S. multilateral, regional and bilateral trade negotiations. To achieve this

objective, the President was granted residual tariff proclamation authority to reach additional agreements under the auspices of the WTO to eliminate tariffs in these zero-for-zero sectors. This tariff authority proved useful in eliminating tariffs in the electronics sector through the Information Technology Agreement. However, other important sectors such as wood and paper continue to face significant foreign tariff barriers. Prompt elimination of these tariffs is a matter of fairness and equity, and could result in substantial trade gains -- to the benefit of the U.S. industry and foreign importers -- and is therefore included in the overall negotiating objectives.

It is equally important that these objectives be sought with all possible alacrity. For example, even in those countries in which important tariff disparities will be phased-out over time as part of the Uruguay Round, often the disparities will be maintained for many years to the great disadvantage of the U.S. industry.

Principal Negotiating Objectives. Section 101(b) sets forth the principal negotiating objectives for each of the categories of negotiations in which the United States is likely to be engaged over the next eight years: multilateral, sectoral, regional and bilateral.

Multilateral Negotiations. The principal trade negotiating objectives with respect to multilateral negotiations focus on the ongoing work of the WTO in such areas as agriculture, services, subsidies, trade and the environment, and trade and competition policy, as well as the continuing unfinished business from the Uruguay Round, including those zero-for-zero initiatives of the United States which remain unresolved. To achieve the objective with respect to tariff elimination, the Administration should seek to obtain reciprocal tariff and nontariff barrier elimination agreements under the auspices of the WTO for those products which were the subject of reciprocal duty elimination or harmonization negotiations during the Uruguay Round of multilateral trade negotiations and for those products in which there is a substantial disparity between foreign tariff and nontariff barriers and U.S. barriers.

Among the most critical areas where further progress is needed is in the paper and wood sectors. Japan in particular has resisted elimination of its wood tariffs, which range as high as 18 percent on some processed wood products. [CONFIRM HIGHEST CURRENT FIGURES IN LIGHT OF URUGUAY ROUND IMPLEMENTATION] With respect to paper, a priority objective should continue to be an accelerated reduction in EU tariffs on paper and paper products, which under the Uruguay Round are being phased out over an extended 10-year period. Thus, to be effective, such tariff elimination should be obtained, if at all possible, no later than the year 2000. In addition, there are numerous other countries that impose significant tariff barriers on U.S. wood and paper

exports, as discussed further below in the section on sectoral negotiating objectives.

Sectoral Negotiations. The principal negotiating objectives with respect to sectoral negotiations are to obtain competitive opportunities for United States exports in foreign markets substantially equivalent to those afforded to foreign products in the United States; and to obtain the reduction or elimination of specific tariff and nontariff barriers, especially with respect to those sectors in which the United States imposes zero or de minimis tariffs and those sectors in which there is a substantial disparity between U.S. tariffs and those of a major trading partner.

Wood and Paper. Among the sectors on which the United States should place priority attention in any sectoral negotiations are wood and paper products, both as a zero or de minimis area of U.S. tariffs and because of the substantial restrictions maintained by several of our major trading partners. Despite growth in exports over the past several years, the U.S. forest products industry is losing significant market opportunities around the world because of foreign trade barriers, both tariff and nontariff.

1. Tariffs. Foreign tariff barriers cause significant competitive effects because the United States has agreed to zero or de minimis tariffs on most wood and paper products. U.S. duty-free treatment or low duties on wood and paper products permit essential unrestricted foreign access to the U.S. market, while U.S. exporters continue to face high duties imposed on those same products by foreign countries that have not kept pace with the United States in reducing rates of duty. Such disparities in tariff treatment deny U.S. exporters competitive opportunities that are substantially equivalent to those afforded to similar foreign products in the United States.

Given the results of the Uruguay Round negotiations and the immediate and substantial cost of such restrictions on U.S. producers, prompt elimination of tariffs in these sectors, no later than the year 2000, should be sought.

On a global level, the single overwhelming barrier in key world markets facing U.S. wood exporters is tariff escalation. Tariff escalation is a practice normally used by developing countries to protect infant industries. In the wood sector, tariff escalation occurs when a country establishes low or zero tariffs for logs and other raw materials, but maintains relatively high tariffs on processed products like lumber, plywood, veneer, doors, flooring and siding. This practice becomes particularly damaging when utilized by economically developed countries. It denies equitable market opportunities because it undermines the comparative manufacturing advantage of the highly

productive and internationally competitive U.S. wood products industry.

Japan is an example of an advanced industrialized economy that continues to use tariff escalation to protect its wood products industry. Japan imposes no tariffs on raw material imports, but up to 18 percent tariffs on processed products. The combination of zero duties on raw materials and high duties on processed products creates an effective rate of protection that is significantly higher than the nominal rate of duty. This is because Japan's wood processors can import raw materials without a tariff, while tariffs are applied to the full value of any imported manufactured product -- both the raw material and the value-added. For example, where a raw materials make up 50 percent of the cost of production, and the finished product faces a tariff of 18 percent, U.S. producers of the same product would have to increase their manufacturing productivity by 36 percent to overcome the effect of the tariff.

In addition to Japan, some of the major markets to which U.S. exports are significantly restricted because of tariff escalation are: Algeria, Brazil, China, Columbia, the Dominican Republic, the European Union, Egypt, India, Indonesia, Korea, Malaysia, Mexico, New Zealand, Pakistan, the Philippines, Thailand, and Turkey.

With respect to paper, significant tariff barriers to U.S. exports continue to exist in Australia, Brazil, China, the European Union, India, Indonesia, Korea, Malaysia, South Africa, Taiwan and Thailand. While the EU did agree in the Uruguay Round to phase out its paper tariffs, it has taken an extended 10-year phase-out period to accomplish this, during which time the U.S. industry remains at a significant competitive disadvantage. A much prompter elimination of tariffs is called for. In addition, association agreements with the EU signed by the Czech Republic, Hungary, Poland and the Slovak Republic give preferential tariff treatment to EU paper exports, discriminating against U.S. paper exports. Elimination of tariffs on U.S. paper exports should be a priority objective of any future sectoral negotiations.

2. Quotas. U.S. wood producers also face quotas and tariff-rate quotas that have been imposed merely to restrict competitive products that limit their exports to the EU, Mexico, Israel and China. Paper products are also subject to quota restrictions in China. Elimination of these restrictions should also be given significant priority in any sectoral negotiations.

3. Environmental Certification and Ecolabeling Requirements. An area of emerging concern with respect to non-tariff trade barriers for U.S. paper and wood products is the growing number of environmental forest management certification and labeling requirements in key foreign markets. The certification requirements often call for strict adherence to performance

standards governing what is harvested from a forest and how it is harvested. These requirements also demand a certificate of origin requiring producers to track the chain of custody of the product throughout transportation, processing and distribution -- from the forest to the final end use. Such non-product-related process and production method (PPM) requirements are often trade-restrictive and discriminatory in effect.

U.S. paper and wood producers likewise face a series of ecolabeling requirements in foreign countries, such as those of the European Union, which include non-product related PPMs in the criteria for product labels. The EU ecolabeling scheme for copying paper, for example, includes a requirement that companies describe how international or national agreements on sustainable forest management are applied on their lands and those of their suppliers, together with a statement by the "responsible authority" that these principles are followed, despite the fact that there is no government agency in the United States with authority over private lands to grant this verification. Such requirements thus leave U.S. exports at risk of discriminatory treatment.

Bilateral and Regional Negotiations. The principal negotiating objectives of the United States with respect to bilateral and regional negotiations relate primarily to the proposed Free Trade Area of the Americas (FTAA) and any other bilateral and regional free trade agreements, such as an expansion of the NAFTA or any free trade areas that might be negotiated in Asia and with European countries.

A key objective in this area for the United States should be to obtain more open, equitable, and reciprocal market access for United States exports in those foreign countries the opening of whose markets has the greatest potential to increase United States exports and foreign direct investment. The purpose of this objective is to ensure that options for regional trade agreements are considered on the basis of which countries would provide the best market opportunities for U.S. exporters. This is intended to encourage the Administration to consider all regions of the world, rather than simply focusing on any one, as it considers future bilateral and regional negotiations.

Other key objectives for bilateral and regional negotiations are to obtain competitive opportunities for United States exports in foreign markets substantially equivalent to those afforded to foreign products in the United States and to obtain the reduction or elimination of specific tariff and nontariff barriers, especially with respect to those sectors in which the United States imposes zero or de minimis tariffs and those sectors in which our trading partners have substantially higher tariffs than those imposed on imports into the United States. Here, as previously discussed under the sectoral negotiations objectives, the focus is to be on eliminating disparities in competitive opportunities afforded to U.S. and foreign industries. This should include,

for example, attention to those sectors, such as wood and paper, where the United States imposes zero or de minimis tariffs while foreign countries still impose significant tariffs. Again, it is important that these results be achieved as soon as possible, if at all possible by the year 2000.

Finally, another objective in bilateral and regional negotiations is to obtain treatment for United States exports and foreign direct investment in the foreign countries that are party to the agreement which is, and will be in the future, no less favorable than that accorded to the exports or investment of any countries not party to the agreement. Given the proliferation of free trade agreements around the world, there is a substantial risk that, absent clear provisions to the contrary, other countries entering into bilateral or regional agreements with the United States may subsequently, in another bilateral or regional agreement, seek to grant other countries terms of access to their markets that are more favorable than those granted to the United States. For example, while the U.S.-Israel free trade agreement limited exports of U.S. plywood under a tariff rate quota, a subsequent free trade agreement between Israel and the European Union provided more favorable terms, leaving U.S. producers at a competitive disadvantage. [CONFIRM SUMMARY WITH STEVE OR BETSY] Such discrimination should be clearly prohibited in any bilateral or regional agreements entered into by the United States.

Sec. 102. Trade Agreement Negotiating Authority.

Tariff Agreements. Section 102(a) grants the President authority to enter into trade agreements to reduce or eliminate tariffs until July 1, 2005, and to proclaim the necessary reductions in U.S. tariffs to implement any such agreements. As with the tariff proclamation authority granted in the 1988 Trade Act, this authority is generally limited to reductions of 50 percent of the rate of duty applicable on the date of enactment of this bill, with the exception of existing duty rates that do not exceed five percent ad valorem.

Section 102(a)(2)(B) provides additional flexibility to the President to negotiate tariff agreements (and implement them by proclamation) that reduce or eliminate tariffs currently as high as 25 percent without being subject to the 50 percent limitation noted above if the President determines and certifies to the Congress that--

- (i) a foreign country has agreed to the elimination of a significant duty on U.S. exports of an article contained in a tariff category for which the United States bound rate of duty in Schedule XX of the United States annexed to the Marrakesh Protocol to the GATT 1994 is zero or de minimis;

- 01-01-1991 03:00PM FROM JCS 100-410114002124 P.18
- (ii) the elimination, modification or staged rate reduction of the duty imposed by the United States is necessary and appropriate to provide for equitable and reciprocal market access for exports of the United States and the foreign country; and
 - (iii) the overall agreement is beneficial to U.S. commercial interests.

In addition, before proclaiming any such reductions under this provision, the President must observe the consultation and layover requirements set forth in section 115 of the Uruguay Round Agreements Act.

The purpose of this two-tier approach regarding tariff proclamation authority is to create an incentive for other countries to offer to eliminate significant tariffs on products concerning which the United States has already bound its tariffs at zero or very low levels. In such cases, the President would have the authority to make significant reductions in high U.S. tariffs on other products which may be of interest to other countries. This is intended to provide the President with additional leverage to conclude market-opening agreements benefiting those U.S. sectors that have already given their tariff protection and yet continue to face significant tariff barriers to their exports to foreign countries. The Committee believes that obtaining further reduction and elimination of foreign tariffs, as well as accelerated staging of reductions, in these sectors should be a priority objective in all future U.S. trade negotiations, whether multilateral, sectoral, regional or bilateral.

For example, the Committee notes that among the most critical areas where further progress is needed is in the wood and paper sectors. Japan in particular has resisted elimination of its wood tariffs, which range as high as 18 percent on some processed wood products. In addition to Japan, some of the major markets to which U.S. exports are significantly restricted because of wood tariffs are: Algeria, Brazil, China, Columbia, the Dominican Republic, the European Union, Egypt, India, Indonesia, Korea, Malaysia, Mexico, New Zealand, Pakistan, the Philippines, Thailand, and Turkey. With respect to paper, a priority objective should continue to be an accelerated reduction in EU tariffs on paper and paper products, which under the Uruguay Round are being phased out over an extended 10-year period. In addition, significant tariff barriers to U.S. paper exports continue to exist in Australia, Brazil, China, India, Indonesia, Korea, Malaysia, South Africa, Taiwan and Thailand.

Section 102(a)(3) provides that any tariff reduction or increase that may not be proclaimed by reason of the restrictions in paragraph (2) may take effect only if a provision authorizing such reduction or increase is included within an implementing

bill subject to the fast track procedures and that bill is enacted into law. Section 102(a)(4) specifies that a trade agreement may be entered into under subsection (a) only if the agreement make progress in meeting the principal negotiating objectives relating to tariff elimination described in section 101. Again, this is intended to emphasize the importance the Congress places on eliminating tariff disparities between the United States and our key trading partners, especially in those zero-for-zero sectors that remain subject to further negotiations.

Nontariff Agreements. Subsection (b) of section 102 provides separate authority for multilateral and sectoral agreements regarding nontariff barriers. It is also effective until July 1, 2005. As with past grants of fast track authority, it is specified that a trade agreement may be entered into under the subsection only if such agreement makes progress in meeting the applicable objectives described in section 101. The Committee notes in this regard that priority should be given to concluding outstanding zero-for-zero initiatives, such as those concerning paper and wood, as discussed above.

Bilateral and Regional Agreements. Subsection (c) of section 102 provides separate authority for bilateral and regional agreements with foreign countries regarding both tariff and nontariff barriers. Again, this authority is limited to agreements entered into by July 1, 2005. This authority is intended to be used for the negotiation of the Free Trade Area of the Americas (FTAA), as well as any expansion of the NAFTA or any other regional or bilateral free trade agreements.

Consistent with past grants of fast track authority, the subsection specifies that, notwithstanding any other provision of law, no trade benefit shall be extended to any country by reason of the extension of any trade benefit to another country under a trade agreement entered into under paragraph (1) with such other country, unless the country receiving the benefit is also party to the trade agreement. This provision is intended to ensure that foreign countries which have not made reciprocal concessions to the United States do not receive the benefits of regional or bilateral free trade agreements.

This subsection also sets forth certain restrictions on the President's ability to enter into regional or bilateral trade agreements. First, as in past grants of fast track authority, the agreement must make progress in meeting whichever principal negotiating objectives established in section 101 are applicable to the agreement. Second, and again consistent with past grants of fast track authority, the foreign countries with which the United States has negotiated the agreement must have requested the negotiation of such an agreement.

Third, the agreement must provide for treatment for U.S. exports and foreign direct investment in the foreign countries that are party to the agreement which is, and will be in the future, no less favorable than that accorded to the exports or investment of any countries not party to the agreement. This is a new requirement intended to deal with the problem of one country entering into free trade agreements with several countries on different terms. For example, as noted above, Israel has entered into free trade agreements with both the United States and the European Union. The U.S.-Israel free trade agreement limited exports of U.S. plywood under a tariff rate quota, while EU plywood exports received more favorable treatment. Such unequal treatment is likely to become an increasingly more common problem as the number of bilateral and regional free trade agreements around the world proliferates. This new requirement is intended to resolve this problem by requiring a provision in all future free trade agreements of the United States which guarantees U.S. exports and investment equivalent treatment to that granted by a free trade partner to the exports and investment of any other country.

A fourth requirement, again consistent with past grants of fast track authority, mandates that the President, at least 60 days before he formally notifies the Congress of his intention to enter into an agreement under the fast track authority, must (i) provide written notice of such negotiations to the Committee on Finance of the Senate and the Committee on Ways and Means of the House of Representatives, and (ii) consult with those committees regarding the negotiation of the agreement in question. The 60-day period of time for consultation is to include only those days in which the Congress is in session, as was provided for under the 1988 Trade Act.

Consultation with the Congress. Subsection (d) of section 102 sets forth the general requirements for consultation by the President with the Congress under the fast track procedures. These requirements are generally consistent with those set forth in the 1988 Trade Act. The consultations are directed to occur with the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate, as well as each other committee of the House and the Senate, and each joint committee of the Congress, which has jurisdiction over legislation involving subject matters which would be affected by the particular trade agreement under negotiation.

The consultations mandated under this subsection are to cover the nature of the agreement; how and to what extent the agreement will achieve the applicable purposes, policies, and objectives set forth in this bill; and all matters relating to the implementation of the agreement under the fast track procedures set forth in section 1103 of the Omnibus Trade and Competitiveness Act of 1988. As with past grants of fast track authority, if it is proposed to implement two or more trade agreements

in a single implementing bill under the fast track procedures, the consultations between the President and the Congress must also cover the desirability and feasibility of such proposed implementation.

197736

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MONDAY, SEPTEMBER 22, 1997

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Dayton Daily News

EDITORIALS

Fast track is right way on trade

► The legitimate concerns of unions and others already get plenty of consideration when agreements are negotiated.

President Clinton is trying to get Congress to give him the same kind of leeway that past presidents have had in negotiating trade agreements. His proposal is referred to as "fast track," meaning that Congress would have to either approve or disapprove of a treaty as a package, rather than having the option of rejecting some sections.

The president's proposal is reasonable.

The main opposition comes from labor unions, which fear that various administrations might not be careful enough to protect American jobs in negotiations. In truth, however, evidence is slight that past treaties have cost more jobs than they have created, especially in a state like Ohio, which is one of the biggest exporting states in the nation. Studies on the national impact of the North American Free Trade Agreement, for example, show relatively small numbers of jobs gained or lost, but certainly no net loss. (Nor is it a simple calculation as to whether the new jobs are as good as the old, or better.)

Workers in an auto town like Dayton are used to seeing foreign competition as a threat to jobs. It is, but only in the narrow sense. If Americans can buy foreign products, but foreigners can't buy American, that's a problem. But it's a problem recognized by American negotiators. Under Bill Clinton, as under other presidents, the negotiators have generally seen their task as being to open foreign markets. As the world has moved toward open markets in the 1990s, this nation has prospered.

The main impact of adding Congress to the negotiating mix would be to complicate the already monumentally complicated process of working out trade agreements. If Congress — which is not known for being a great friend of unions these days anyway — wants to nix an agreement, it can. That's the arrangement that has always existed and generally worked. It's enough power for Congress.

Result of
McLarty swing
through Ohio

- Mack
- Andrew
- Nelson
- Eric

FYI
- Stu

st-1st Fax Note	Date	# of pages
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Dayton Daily News -

- primary coverage
- Rep. Tony Hall (D) 3rd
- secondary coverage
- Rep. Dave Hobson (R) 7th
- Rep. John Boehner (R) 8th
- Rep. Rob Portman (R) 2nd

June 30, 1997

Andrew -
fwi
epz

MEMORANDUM FOR MACK MCLARTY

FROM: ERIC FARNSWORTH

SUBJECT: LABOR AND FAST TRACK

Progressive Policy Institute says that Labor plans to run a \$20 million media campaign against fast track this August. Targeted will be Members of Congress in swing districts at home on August break.

The good news, according to PPI, is that August may be too soon, and that the campaign may therefore run out of steam before fast track comes to a head later in the autumn. Still, delay in introducing the bill is allowing opponents of the measure to organize aggressively to defeat it; no word on whether the business community plans a countervailing public affairs/media/lobby campaign.

June 10, 1997

Andrew
- Back to you
For file.
— PH

MEMORANDUM FOR MACK MCLARTY

FROM: Andrew Friendly
SUBJECT: Al From and Latin America
CC: Nelson Cunningham

Edie Wilson who deals with trade issues for the DLC called me today to talk about getting more involved in Latin America and the upcoming fast track debate. She said that Al From has never been to South America and that she has talked to him about taking a trip in the near future so that he can become better acquainted with the issues. Also, she hoped to get Sen. Lieberman more involved with trade and specifically Latin America.

Al told Edie that they needed your advise first before planning such a trip and she suggested the two of them come talk with you soon. She would also like to discuss how the DLC can help in pushing general trade issues other than MFN which they are already involved in doing.

Are you willing to set up a meeting with Al and Edie within the next week? If so, who else would you like to include from the WH?

Nelson - 6/11
Mack wants to do
this + I've got in
a call to set up for
next Mon or Tues am.
What about NSC or
shld it just be us?
— Andrew

Andrew -
- What's your answer
to this question?
- It sounds like something
we could do - don't you
agree?
PH 6/10

KEEPING AMERICA AND ITS WORKERS THE MOST COMPETITIVE IN THE WORLD

America Needs Fast Track to Continue to Create Higher-Paying Jobs for More Americans. Without it, America's role as the largest exporter in the world will be put in jeopardy. And with new markets opening around the world, it is more important than ever to give the President traditional trade authority to break down trade barriers that put American products made by American workers at a disadvantage. We will continue to ensure that America's workers will benefit from expanded trade by fighting for increased training and education opportunities.

I. AMERICAN WORKERS STILL FACE A DISADVANTAGE BECAUSE TOO MANY FOREIGN COUNTRIES PLACE RESTRICTIONS ON AMERICAN GOODS. WE NEED FAST TRACK TO LEVEL THE PLAYING FIELD FOR AMERICAN WORKERS.

What We Inherited. In 1993, President Clinton came into office at a time when the U.S. continued its commitment to free and fair trade, but other countries maintained high tariffs and other obstacles to fair trade to the disadvantage of America's workers.

President Clinton Moved to Address this Disadvantage by Completing the Uruguay Round Agreements, Negotiated Under Fast Track Authority. We have repeatedly leveled the playing field by negotiating tough, fair agreements -- securing more concessions from our trading partners than we had to give up. For example, Australia has cut its tariffs five times more than we have had to, Korea six times more than the U.S. and Peru has cut its tariffs ten times more than the U.S. since the Uruguay Round of GATT. Because of the ongoing benefits from the Uruguay Round, it is estimated that trade will continue to grow by an average of 9% per year until 2000.

American Workers Still Face a Disadvantage. Even with the recent progress in GATT, American exports still face higher tariff rates than our own. For instance, U.S. agricultural exports average 38%, while our own rates average 11%. U.S. electric machinery exports average 5%, while our rates average under 2%. Without Fast track authority, these conditions will only persist when more and more countries negotiate their own preferential trade deals to the detriment of America's workers. American workers deserve better.

Open and Fair Trade is in the Best Interest of American Workers and their Families. As the American people prepare for the challenges of the 21st century, we face a critical choice: We can meet the challenges of the future, write the trade rules and continue America's remarkable economic growth -- or we can turn our back on the world and fail to compete for new markets, new contracts, new business and new jobs. All over America, jobs have been created in small, medium and large companies that would not be here today if we did not have the ability to negotiate fair trade agreements.

- Over the last four years, American manufacturing exports rose 42%, high technology exports jumped 46%, service exports climbed 33% and farm exports rose 41%.
- From 1990-1996, U.S. auto exports to the biggest emerging markets (excluding Mexico) rose \$500 million and are estimated to reach \$6.1 billion by 2010. U.S. parts exports to these emerging markets are expected to more than triple from the current \$3 billion to \$10 billion in 2010.
- The U.S. dominates 75% of the global software market. More than one-half million workers are employed in the industry -- double the level a decade ago. This industry is expected to grow 9% per year worldwide over the next decade.

- The U.S. once again dominates the world's semiconductor industry -- after trailing Japan for years. More than one-quarter million American are employed in the semiconductor industry -- up 13% over the last three years. The global semiconductor market nearly tripled in size between 1990 and 1995 -- and sales are expected to reach \$200 billion by the year 2000 -- a fourfold increase over a decade.
- Exports of goods and services have risen from about 4% of GDP in the early 1960's to over 13% today. Over 15% of the total American workforce is employed in the manufacturing sector. U.S. exports have grown 3 times faster than Japan's, 5 times faster than Germany's since the mid 1980's.

II. TO ENSURE THAT ALL AMERICAN WORKERS BENEFIT FROM EXPANDED TRADE, THE CLINTON ADMINISTRATION HAS FOUGHT FOR INCREASED TRAINING AND EDUCATION OPPORTUNITIES.

We need a growth strategy in which we take every action possible to ensure that all Americans can benefit from economic change. We need to break out of the old arguments that say you are either for blocking change or you are for the market, but everyone has to fend for themselves. Government needs to help workers, communities and those not in the job market realize the benefits of expanded trade.

- **The Administration is developing a comprehensive plan to help communities and workers who have been affected by trade.** President Clinton is building on his strong record of helping workers and families secure more opportunities to improve their educations and obtain higher paying jobs. The President will announce his plan early next week.

A Record of Strong Action to Help Families and Workers

- **Fought To Ensure Low-Income Families Benefitted from Child Tax Credit.** Because of the President's efforts, 13 million children from families with incomes below \$30,000 will receive the tax credit -- up to 7.5 million more than under the House plans. Families making under \$30,000 -- such as young teachers, police officers, farmers, nurses and others who work hard and play by the rules -- will now receive the child credit.
- **20% Tuition Tax Credit.** The balanced budget deals provides for a 20% tuition tax credit applied to the first \$5,000 of qualified education expenses and to the first \$10,000 thereafter for college juniors, seniors, graduate students, and working Americans pursuing lifelong learning.
- **\$1,500 Hope Scholarship Tax Credit.** The balanced budget deal also includes a \$1,500 Hope Scholarship to make the first two years of college universally available. For a student attending the average four-year college, the Tuition Tax and HOPE Scholarship tax credits will provide tax savings of up to \$5,000.
- **Doubled Dislocated Worker Funding.** The funding for dislocated workers has been doubled, from \$651 million in FY93 to \$1,286 million in FY97. This year, the dislocated worker program will assist 580,000 workers, up about 300,000 since President Clinton took office.
- **Largest Pell Grant Increase in Two Decades.** The Balanced Budget agreement boosts the maximum 1998 Pell grant from \$2,700 to \$3,000, and expands the program to more poor independent students -- that's the largest increase in two decades.

III. IF THE PRESIDENT DOES NOT HAVE THE SAME AUTHORITY THAT EVERY PRESIDENT HAS HAD SINCE 1974, OUR COMPETITORS, NOT AMERICAN WORKERS, WILL REALIZE THE BENEFITS OF THE NEW ECONOMY.

Today, we have the opportunity to permanently create the types of jobs that pay more and provide our workers with more security -- if we continue to increase our exports and open more markets. But if the President does not have the authority to negotiate tough and fair trade agreements with Congress' consent, our competitors will get the best jobs for their workers, while the U.S. will be relegated to the sidelines.

- **Without fast track, the U.S. will lack credibility to push for a fast start on global negotiations scheduled to start at the end of 1999. The United States stands the most to gain in these negotiations because of its comparative advantage in agriculture, commercial services and government procurement.**

- ✎ **Agriculture.** Agricultural exports support nearly a million U.S. jobs. Agriculture remains one of the most protected and subsidized sectors in the world economy. American exports still continue to face trade barriers through high tariffs and preferential trade deals that exclude the U.S.
- ✎ **Commercial Services.** Service exports of U.S. firms supported nearly 4 million jobs in 1996. Unless negotiated away, barriers will inhibit increased U.S. service exports. In Korea, a number of service sectors remain restrictive for foreign investment including telecommunications and insurance. Brazil has restrictive investment laws, lack of transparency in administrative procedures and limits on foreign capital participation. Distribution in the domestic market is restricted in Indonesia.
- ✎ **Government Procurement.** Some sectors relating to government procurement include civil aircraft, energy equipment, environmental technologies and services and medical equipment which employ over 2 million American workers. The vast majority of low and middle-income countries have not signed the WTO Government Procurement Code and the U.S. cannot negotiate government procurement obligations in plurilateral negotiations.

TALKING POINTS ON FAST TRACK AND FOREIGN POLICY

Fast Track and American Leadership -- Overview

- **The fast track debate is about much more than trade. It is about American leadership in the world.** Other governments, particularly those in Latin America, view fast track as a test of whether the United States intends to maintain our half century of leadership -- or retreat and turn inward.
- **A failure of U.S. leadership would be a huge mistake.** For over 50 years, we have led the world toward freer markets -- reducing average tariffs from 40% at the end of World War II to about 5% today. That has led to a 90-fold increase in trade, which has enormously benefitted the U.S. We must not turn our back on that progress.
- **American leadership is not divisible. If we fail to lead on trade, our influence will suffer in other areas.** The patterns of trade developed in the coming decades will create patterns affecting our national security, foreign relations and political interests. If Latin America is permitted--by default in our leadership--to turn increasingly to Europe and Asia in its trade relations, it will weaken our relationship with Latin America. Rejecting fast track would also send a terrible signal to emerging markets, undermining the developing world trend toward free market policies and democracy.

Exports and U.S. Growth

- **For the U.S., the case for fast track is clear: if we are to sustain our economic growth, we must export.** Since 1993, one-third of our growth has come from exports. Over the next decade, the economies of Latin America and Asia are expected to grow at three times the rate of the U.S. economy. In a world where 96% of the world's consumers live outside our borders, we must export to grow. It's that simple.
- **We are in a perfect position to compete. Our economy is the envy of the world.** We are once again the world's most competitive economy, the world's largest exporter, the leading producer in key industries like automobiles, semiconductors and pharmaceuticals. It makes no sense to sideline ourselves now.
- **But we cannot afford to take our economic leadership for granted.** Throughout the world, other countries are moving to reach trade deals opening their markets. We can either lead this process--or watch it proceed without us:
 - In Latin America and Asia alone, other countries have reached more than 20 preferential trade agreements without us. Today every major economy in the hemisphere has a preferential trade deal with Chile, except the U.S.
 - The EU is seeking a preferential trade agreement with MERCOSUR, a market of over 200 million people and a GDP exceeding \$1 trillion. President Chirac has declared "the future of the region rests with Europe, not the United States."

Fast track and American Foreign Policy

- **Fast track is a test of our foreign policy.** As the sole remaining superpower, the United States has a fundamental interest in aiding both security and prosperity around the world -- particularly in our own hemisphere. Stable trading relationships are critical to that end. In the post Cold-War world, trade agreements serve some of the same purposes security pacts played during the Cold War: They bind nations together through a set of shared interests and common objectives.
- **If the U.S. fails to lead, we risk losing influence by default. The trade patterns set in coming decades will have enormous strategic importance too.** That is part of the strategy behind FTAA and APEC processes. They are not just economic: they are also intended to reinforce broader U.S. engagement in Latin America and Asia, two regions where U.S. foreign policy strategic and security interests are deeply implicated. Rejecting fast track would signal retreat from these initiatives.
- **That would clearly undermine broader U.S. interests.** Latin America sees trade as the linchpin of a stronger hemispheric relations -- our failure to engage would undermine cooperation on a range of issues including drug interdiction, immigration, environmental protection and corruption. In Asia, the industrialization of 3.5 billion people in the arc from Korea to Pakistan will be perhaps the greatest development of the 21st Century. It is critical to America's economic and security interests that we be deeply engaged in the transformation. Without fast track, we are crippled in that effort.
- **The cause of democracy and free markets would also suffer.** After decades of failed experiments and anti-Americanism, many of the world's emerging markets today are embracing free markets, democracy and other American values. Today -- for the first time in history -- on behalf of the world's population lives under elected rulers. But this fragile progress will continue only if we continue to press countries to embrace free trade policies, build stronger middle classes and strengthen the building blocks of democracy. Rejecting fast track would send a terrible signal that we are not serious about trade liberalization and reform.

Conclusion

- **The United States faces a critical choice.** We can continue to make our economy the model for the rest of the world, open foreign markets, and reaffirm our global leadership. Or we can convince ourselves that we cannot compete, turn inward, and cede that leadership to others eager to take our place. The choice is that stark -- and that important.

The NAFTA Success Story

More than Just Trade

Trade in the New Economy Project
Policy Report No. 1

Rebecca Reynolds Bannister

September 1997

Progressive Policy Institute's Trade in the New Economy Project

The Progressive Policy Institute (PPI) is a center for policy innovation that develops alternatives to the conventional left-right debate. Founded in 1989, the Institute is fashioning a public philosophy for the 21st century by adapting America's progressive tradition of individual liberty, equal opportunity, and civic obligation to the challenges of the Information Age.

Building on earlier work on trade, in 1997 PPI launched a project on Trade in the New Economy. The project director is PPI Senior Fellow Edith R. Wilson. Providing general guidance is an advisory panel that includes leaders in academia, business, and nongovernmental organizations.

PPI believes that today's growing economic interdependence makes open and free trade more essential than ever to creating opportunities for average Americans, especially since trade is a steadily increasing contributor to our economic growth. As the world economy evolves into its 21st century form, trade expansion and technological change interact in new ways to spur innovation and productivity. Moreover, globalization—the integration of national economies into a world marketplace—poses new challenges as it alters patterns of production, employment and wealth. It also means that our domestic prosperity depends even more on strong U.S. leadership in developing fair and reciprocal rules to govern international commerce. This leadership is critical to U.S. efforts to promote democracy and stability around the world.

But trade liberalization and leadership is only half the equation. As we open markets abroad, we must expand the winner's circle at home. PPI proposes a "third way" in the debate over trade and globalization: Combine vigorous support for expanded economic integration with new public initiatives to insure that the resulting gains are widely shared. We believe America needs a new social compact for the Information Age which includes a set of domestic policies and arrangements that enable all American workers to share in the rewards, not just the risks, of global competition. We can do this by creating a vibrant, democratic capitalism that puts our people and their productive potential first.

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The NAFTA Success Story ***More than Just Trade***

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Executive Summary

When the North American Free Trade Agreement was negotiated, progressives endorsed it as a vital tool for taking control of our economic future. Three years later, NAFTA is fulfilling its promise. Our trade relations, economic competitiveness, overseas investment, and consumer buying power were all strengthened by the pact. The agreement was also a defining moment in U.S.-Mexico-Canada relations, securing and advancing our bonds with our North American neighbors.

NAFTA set a new standard for future U.S. trade agreements in the Americas. It was our first agreement with a less-developed country to address not only merchandise trade but a host of other crucial issues: services, investment, sales to governments, intellectual property protection, transparency of rules for trade and dispute resolution, and labor and environmental standards, to name a few. Mexico and Canada already have patterned their free trade agreements with Chile and other countries on NAFTA. Indeed, the prospect of U.S. trade with other emerging markets without such guidelines, safeguards, and predictability is alarming.

By nearly every measure, NAFTA is working:

- Trade and investment throughout North America have increased.
- North America's regional economy in 1997 is expected to grow by 3.5 percent, a much higher growth rate than today's 2.7 percent average for the rest of the industrialized nations.
- U.S. exports to Mexico and Canada combined reached \$191 billion in 1996, a record.
- Mexico and Canada are the United States' top export markets (Mexico surpasses Japan even

though its economy is one-twelfth the size of Japan's).

- U.S. small businesses and large firms alike have been given secure market access to Mexico as well as methods for resolving commercial and investment disputes with relative transparency and according to established procedures.

- Despite predictions of a "giant sucking sound" from south of the border, NAFTA has not produced a deleterious flight of American investment or jobs.

The United States today is a vibrant, dynamic, and highly successful global competitor. The country has kept its lead in exports, a testimony to its strong competitiveness in providing products and services around the world. We enjoy our lowest unemployment rate in 23 years, low inflation, lower consumer prices due in part to trade, and impressive economic growth.

Clearly, NAFTA has not hurt the U.S. economy.

Our economy now creates as many jobs in a month as the country lost over three years because of NAFTA. If we look at the sectors of the U.S. economy NAFTA negotiators targeted, we find an important and positive story that should be told. Key industries such as autos and electronics and the service sector have benefited from the agreement.

NAFTA was designed to lock in market access for U.S. businesses, and it has done the job admirably. Despite Mexico's economic crisis in 1995, trade flows continued to grow because Mexico was prevented from imposing import barriers on its NAFTA partners, even as it in-

creased tariffs on products from other nations.

U.S. imports from Canada and Mexico increased after NAFTA. In fact, our overall trade in goods with these countries accounts for one-third of our trade with the world (amounting to \$421 billion in 1996). Mexico's 1995 recession and the U.S. economic boom resulted in a U.S. trade deficit with that country, which NAFTA critics equate with displaced U.S. production and lost jobs. The critics are wrong. Imports provide our producers with essential inputs (such as energy), fill market niches abandoned or not supplied by U.S. producers, spur innovation in our industries, and often create and satisfy new consumer demands. Rather than being a sign of U.S. economic weakness, imports indicate that our economy is robust.

Investment in North America has increased since NAFTA. Though NAFTA critics say otherwise, American foreign investment does not imply forgone investment at home; indeed, total U.S. investment in Mexico averages less than 1 percent of our domestic investment in plant and equipment. Furthermore, by investing in Mexico or Canada, U.S. companies can produce

products that enjoy special market access to Chile and other Latin American countries, thanks to Mexico's and Canada's separate free trade agreements with those nations.

Critics of NAFTA and of U.S. trade with developing countries point to Mexico's troubles as a reason for the United States not to enter into such agreements. But if the United States fails to lock in market access to these countries, we will miss important opportunities. Low- and middle-income countries are the leading source of U.S. export growth, increasing 9 percent in 1996.

The United States needs to extend the principles embodied in NAFTA to its trade with the rest of the hemisphere. By forging new hemispheric trading partnerships based on NAFTA's model, we would gain leverage in the World Trade Organization to lead the rest of the world to open and fair trade.

To do this, Congress must give the President the tool all previous presidents have wielded to assert U.S. leadership in the world marketplace-fast-track trade negotiating authority. Without it, the United States is not welcome at the bargaining table.

1. Introduction

When the North American Free Trade Agreement (NAFTA) was negotiated, progressives endorsed it as one tool among many for taking control of America's economic future.¹ Three years later, NAFTA is fulfilling its promise. Our trade relations, the benefits to our consumers, the competitiveness of our workers, and the security of our investments are stronger for having completed NAFTA. The agreement was also a defining moment in U.S.-Mexico-Canada relations, securing and advancing cooperation with our neighbors in North America.

This paper focuses primarily on what has happened to U.S. trade with Mexico under NAFTA and its impact in the United States. Trade between the United States and Canada was already well on its way to full liberalization after the 1989 U.S.-Canada Free Trade Agreement (CFTA), so there is not much new to say about that relationship. Criticism of NAFTA has almost exclusively been directed at United States liberalizing trade with Mexico, a developing country. Before NAFTA, Mexico's tariff and non-tariff barriers were much higher than the U.S. barriers and NAFTA's reductions have resulted in more dramatic changes in U.S. market share in that country. And finally, an economic crisis in Mexico in 1995 altered the trade balance between the United States and

Mexico, which has been used as an argument to disparage NAFTA.

Measuring NAFTA's impact after just three years is important, but it is also an exercise of limited meaning. The Clinton Administration released a NAFTA report in July 1997 because such a report was mandated in the agreement's 1993 implementing legislation. The three-year time frame (instead, for instance, of the more normal five) was settled upon so that neither presidential nor mid-term elections would be affected by the report. Certainly, trade economists would not have chosen this reporting period. The lag time in reporting economic data means that barely three years of data were available.

More importantly, the agreement has not yet been fully implemented. While many provisions went into effect immediately in 1993, many others (particularly tariff reductions) phase in over five to ten years. Some are not complete for a full fifteen years. This was done to permit the workers and industries of all three countries ample time to adjust to change, particularly in sectors with political sensitivity or economic vulnerability. In other words, NAFTA was carefully designed to have a gradual impact on the North American economy. Much of NAFTA's impact still lies ahead.

While no NAFTA assessment at this point can

measure the agreement's full benefits or results, the 1997 congressionally mandated assessment of NAFTA is useful and timely. It allows Congress to determine if anything is dramatically wrong with the agreement. Similar reports should be required down the line. Most importantly, the Clinton Administration report provides an excellent opportunity to replace the innuendo and false charges aimed at the agreement with facts.

The positive findings in the Clinton Administration report have made some inroads in refuting the notion that trade with developing countries such as Mexico is damaging to U.S. interests. But the report primarily serves as a snapshot of a work in progress. It focuses on the quantitative impact of tariff reductions under NAFTA, but does little to examine how the important underlying architecture of principles of free trade included in NAFTA are fundamentally improving our trade and foreign relations with a developing country partner. Principles such as transparency and protection of intellectual property are worth looking at because they set the standard for better trade deals for the United States in the rest of the world.

A Landmark Agreement

NAFTA was pathbreaking. It raised the floor for trade rules beyond previous free trade agreements. NAFTA was the first agreement with a less-developed country to comprehensively cover trade in services (such as insurance, transportation, banking), investment, government procurement, transparency issues (making the business opportunities and the rules of the game clear), dispute settlement, and intellectual property protection as well as merchandise trade. The agreement also includes unprecedented mechanisms for addressing environmental and labor concerns. These safeguards are vital to American firms and workers.

NAFTA should be a model for future U.S. trade agreements in the Americas. Already, Mexico and Canada have patterned their free trade agreements with Chile and other countries on NAFTA's architecture, although other less-open trade arrangements such as the Mercosur customs union now threaten this progress.² Not only is NAFTA pro-

viding boundaries for behavior in the global market, but the prospect of free trade without any such guidelines, safeguards, and predictability is much more alarming. This is the situation facing the United States in other emerging markets today.

NAFTA Works

It is clear to objective observers that NAFTA is working:

- Trade and investment throughout North America have increased.
- North America's economic growth is projected at 3.5 percent in 1997, compared to the average 2.7 percent growth rate for the rest of industrialized nations.³
- U.S. exports to Mexico and Canada are at record levels (\$191 billion in 1996).⁴
- Canada and Mexico are the top export markets for the United States (despite Japan's economy being 12 times larger than Mexico's).
- Trade and investment disputes are handled with relative transparency and according to established procedures agreed to in NAFTA.
- Small businesses as well as large firms have been given secure market access as well as methods for resolving commercial disputes under NAFTA.
- Despite predictions of "giant sucking sounds" from south of the border, NAFTA to date has not produced a flight of investment or jobs.

Beyond NAFTA's impact on trade relations in North America, NAFTA has been accompanied by other positive trends. Just as the Clinton Administration released its report, Mexican democracy took a large, peaceful step forward as voters in state and local elections redistributed power among the three leading political parties. The PRI, the political party with a monopoly on power for over 60 years, no longer controls a majority in

the Mexican Congress. An opposition leader was elected mayor of Mexico City. In another development little noted by outsiders, Mexican labor unions reached a watershed as their leader (since the early days of PRI control in Mexico) died, and union leadership moved toward a new independence from government control. These changes make the obvious point: economic reforms symbolized by NAFTA have indeed been accompanied by a process of significant political reform in Mexico. It is fair to argue that the transparency and openness to outside scrutiny and influence that came with NAFTA contributed to the political opening.⁵

Also too late to be included in the Clinton Administration's report to Congress came news that many have been waiting for: Mexico's economy has come bounding back this year. In the third quarter of 1997 gross domestic product (GDP) grew 8.8 percent, its largest increase in 16 years. Growth for the year is now estimated to reach somewhere between 5 and 6 percent, far above the Zedillo Administration's 4 percent projection at the start of the year.⁶ Throughout 1997, U.S. trade growth with Mexico and Latin America has been outpacing growth in other regions. The U.S. trade deficit with Mexico is shrinking, reflecting increased Mexican buying power. The 1995 peso crisis and its aftershock have passed, thanks in part to NAFTA; political transformation has happened peacefully; and confidence is returning to Mexico. Finally, the Canadian Conference Board released an August report showing that North America is now the world's fastest growing region. The news about NAFTA is better than the Clinton Administration report was able to show.

Overall Economic Impact

Based on the first three years, the macroeconomic impact of NAFTA on the United States is modest. Trade patterns and investment patterns that began to improve in the 1980s after Mexico joined the General Agreement on Tariffs and Trade (GATT) and began to lower trade barriers have continued. Free trade with Canada was already underway since 1989 under the Canadian Free Trade Agreement. Furthermore, Mexico's economy is so much smaller than that of the

United States that its impact is dwarfed by the U.S. economic impact on Mexico.

The employment effects of NAFTA, as best can be determined by various studies, are negligible within the scope of the enormous job creation numbers in the U.S. economy. The total number of displaced jobs attributed to NAFTA over three years equals the number of jobs created in the U.S. economy in one month.⁷

It is now four years after NAFTA and three years after the even more far-reaching Uruguay Round. The U.S. economy is a dynamic and highly successful competitor in the global arena with the lowest unemployment rates in 23 years, low inflation (due in part to trade offering better choices and prices), impressive GDP growth, and excellent global competitiveness of U.S. products and services (as demonstrated by the United States maintaining global leadership in exports). NAFTA has not hurt the U.S. economy.

If we look at the provisions of NAFTA and at the sectors of the U.S. economy targeted by NAFTA's negotiators, we find an important and positive story that should be told. Key industries, such as autos, electronics, and the service sector (a misunderstood but vital component of U.S. GDP growth and a sector with a persistent trade surplus with the world) have benefitted from NAFTA's provisions. This has occurred despite Mexico's peso devaluation and balance of payments crisis that originated virtually the day NAFTA started and continued for 19 months through 1995.

What Did the United States Seek to Gain with NAFTA?

NAFTA was meant to lock in and increase U.S. market access to Mexico's newly open and growing economy. It was designed to push for new opportunities in services and sales contracts with government projects (which were significant in a largely state-controlled economy) in both Mexico and Canada. It was designed to make sure that our companies got a fair deal, the rules of the game were transparent, and our companies were treated just as well as national firms in Mexico and Canada. NAFTA was also clearly designed to make North America an even stronger economic

powerhouse *vis a vis* competing regional economies in Asia and Europe. The fact that the North American economy is growing faster than any other region—with strong growth in all three countries—indicates that this is happening.⁸

There was another important motive for the United States to negotiate with Mexico. NAFTA was a vote of confidence in Mexico and its possibilities. It was an expression of optimism about U.S. relations with the country after a long history of troubled interaction. Mexico's interest in committing to the broad cooperation covered

by NAFTA concerning trade (characterized for years by a series of ongoing disputes), the environment, and labor issues achieved important foreign policy objectives for the United States. Through NAFTA, democratic principles such as transparency (open records, public notice, recourse for disputes) were introduced throughout Mexico. While corruption, narcotics, and immigration difficulties remain, there are important signs of change in Mexico since NAFTA in the areas of openness and increased pluralism and democratization.

2. Trade and Investment within North America have Increased

The United States exports more to its North American trading partners than to any other region of the world including the entire Pacific Rim or all of Europe.

Exports and Imports. Trade between the United States, Canada, and Mexico has increased by 43 percent since NAFTA took effect, with total trade (imports and exports between the United States and Mexico and the United States and Canada) of \$421 billion in 1996. Trade with Mexico and Canada comprises nearly one third of U.S. trade in goods with the world, growing 44 percent since NAFTA was signed. Exports to our NAFTA partners accounted for 53 percent in the total growth of U.S. exports in the first three months of 1997.⁹ Trade both ways increased; together, Mexico and Canada supplied 30 percent of our imports and Canada and Mexico purchased 30 percent of our exports in 1996.¹⁰

U.S. exports to Mexico under NAFTA now surpass our exports to Japan, an economy 12 times larger than Mexico's. In 1996, they reached a record \$57 billion, growing 37 percent since NAFTA began. U.S. exports to Canada, our most important trading partner, reached \$134.2 billion in 1996, up 34 percent since the start of NAFTA, despite that country's low growth (1.5 percent)

and high unemployment rate (10 percent) in 1996, as well as a falling Canadian dollar.¹¹

Imports also increased from Mexico and Canada, at a faster rate than our exports to those countries. This is an indication that NAFTA, a vehicle to expand trade, is working. Falling currency rates in these countries made their products cheaper in the U.S. economy where demand was booming due to strong growth. For a sense of proportion, imports from the whole world to the United States grew six percent in 1996, down from 11 percent in 1995 and 12 percent in 1994. Import growth was led by purchases of industrial supplies and materials, thanks to the ongoing expansion of the U.S. economy. Capital goods and industrial supplies and materials account for more than half of U.S. imports from the whole world. These same goods account for 60 percent of the dollar increase in U.S. goods imports between 1992 and 1996.¹² Rather than being a sign of U.S. economic weakness, imports indicate that our economy is robust. We import and export more when our economy is thriving.

NAFTA critics sound the alarm that the United States has a trade deficit with Mexico and Canada since NAFTA. There is nothing wrong with a short term increase in the U.S. trade deficit with these important partners. U.S. imports from Mexico

and Canada feed the engine of U.S. economic growth, by providing key inputs to production and satisfying consumer demand, without inflating prices. Furthermore, the International Trade Commission finds that American imports from Mexico have much higher U.S. content than imports from other markets.¹³

Imports from Mexico have more than doubled since 1992. In 1996, Mexico was our fastest growing source of goods imports (up 18 percent), due to industry integration and the continuing effects of the peso devaluation. U.S.-made components comprise half the value of imports from assembly plants in Mexico, compared to less than one-quarter the value of such imports from Asian countries.¹⁴ Furthermore, imports from Mexico appear to have displaced imports from Asia. For example, the share of U.S. imports of apparel from Mexico rose from 4.4 to 9.6 percent between 1993 and 1996, while the share of U.S. apparel imports from China, Hong Kong, Taiwan, and Korea fell from 39 percent to 30 percent.¹⁵

The largest percentage post-NAFTA import surges were found in textiles and paper products, but these account for less than one percent of all U.S. manufacturing imports. The next highest were in those sectors that also saw the highest percentage export increases from the United States to Mexico: transportation (the automotive sector) and machinery (encompassing computers).¹⁶

In fact, the top twenty imports and exports between the United States and Mexico were in virtually the same industries, implying complementary products. This phenomenon indicates intra-industry trade and is evidence that NAFTA is allowing North American industries to specialize and develop economies of scale for increased productivity and competitiveness (one of the agreement's objectives).¹⁷

A good way to see if NAFTA has made a difference in the U.S. presence in our neighbor's market (as differentiated from other trading partners) is to look at market share and our tariff advantage *vis a vis* Mexico's other trading partners. As Mexico's tariffs on U.S. goods have come down (from an average of 10 percent before NAFTA to less than 6 percent today, after four rounds of tariff cuts) U.S. market share in Mexico has grown from 69.3 percent to 75.5 percent. The United States has a ten percent average tariff advantage over

other foreign suppliers to Mexico. At the same time, as U.S. tariffs on Mexican products declined from 4 percent to about 2.5 percent, Mexico's share of American imports has risen from 6.9 to 9.3 percent.¹⁸

Investment. Since NAFTA patterns of cross-border investment have continued, U.S. and Canadian investment in Mexico has increased, but averages less than \$4 billion annually since NAFTA began. That amount is less than one percent of plant and investment equipment expenditures at home.¹⁹ The United States attracts more foreign investment than any other country (\$60 billion in 1995 compared to \$7 billion from all countries investing in Mexico).²⁰ The vast majority of U.S. foreign direct investment (FDI) stock remains in developed countries.²¹

It is true that U.S. foreign direct investment (FDI) is increasing in developing countries as a strategy to gain market share and to facilitate global production and trade. FDI opens toe-holds in other markets that allow American companies to further expand sales.²² NAFTA made it possible for businesses to remain in the United States and be able to sell into Mexico and Canada without tariffs that make our products and services less competitive than goods produced in those countries. Domestic and foreign investment in automobile plants in the United States of \$39 billion from 1993-96 versus \$3 billion in Mexico shows how removing tariff barriers to U.S. products helps to keep investment at home. However, by delaying the extension of NAFTA's free trade principles to U.S. trade with the rest of Latin America, U.S.-based products face disadvantages in those other markets. Products produced in Canada, for example, have an 11 percent price advantage in Chile over products placed in the United States because of their free trade agreement.

Effect of NAFTA on the States. Every state in the United States saw its exports to Mexico and Canada grow during the 1993-1996 period. Louisiana, Mississippi, and Kentucky enjoyed cumulative export growth of more than 75 percent and 19 other states enjoyed 25 percent growth. Unemployment is at its lowest in what were once termed "rust-belt" states such as Michigan and Ohio.

The U.S. Department of Commerce now offers state export data in its Export Locator Series illustrating more than the previous trade-flow data and showing the location of an export's origin. With this new data it is possible to truly see for the first time a more balanced view of state exports to our NAFTA partners, instead of emphasizing the states which serve as transportation and distribution centers. A recent series of reports by the Council of the Americas on 21 U.S. states clearly indicates that the agreement has produced significant benefits since its implementation in the areas of export growth, job creation, FDI in the states, and environmental improvements.²³

Automobile Trade. Securing market access for U.S. vehicles and components was a key objective for U.S. negotiators of NAFTA. The U.S.-Canada FTA was already liberalizing trade with our principal trading partner when NAFTA discussions first began, but Mexico had not only higher tariff barriers but a variety of non-tariff barriers that discriminated against U.S. goods and services. The automotive sector confronted an array of restrictions in Mexico that distorted efficient production and distribution. NAFTA dismantled these barriers, and the results have been more positive than predicted three years ago.

Prior to NAFTA, Mexico's Auto Decrees required foreign auto makers to produce in that country in order to sell there. Mexico's trade balancing rules required automotive manufacturers to export more than they imported. Local content requirements forced manufacturers to purchase components from Mexican-owned suppliers (which effectively forced U.S. parts manufacturers to invest in Mexico). Tariffs were set at 20 percent for cars and trucks.

NAFTA immediately cut these tariffs on cars and light trucks to 10 percent. It reduces, and eliminates in seven more years, local content requirements. It gave U.S. medium and heavy truck and bus exports immediate access to the market and eliminates all restrictions on these imports less than two years from now.

In 1993, the American Association of Automobile Manufacturers (AAMA) predicted that NAFTA would increase vehicle exports to Mexico from less than \$200 million to over \$1 billion. By 1996, vehicle exports to Mexico were nearly \$1.3 bil-

lion—87,000 vehicles in 1996 alone—as compared to only 4,000 cars and 2,000 trucks per year prior to NAFTA. This increase is even more noteworthy when we recall that it occurred during the worst economic crisis in Mexico in decades.²⁴

Imports by AAMA members from Mexico have doubled since 1993, largely to meet U.S. demand spurred by the economic growth. But exports have risen by 800 percent over that same time period, even while demand in Mexico stagnated as the economy shrank 7 percent and the demand for new vehicles dropped nearly 70 percent. In fact, in 1996, one in four cars or trucks bought by Mexican consumers was produced in U.S. and Canadian plants.²⁵

The rationalization of automotive production between the United States and Mexico, which had already begun with Canada, allowed Mexican subsidiaries of U.S. automotive companies to supplement U.S. production of vehicles in high demand in the United States. This not only contributed to Mexico's economic recovery, but kept U.S. auto prices lower and made it possible for consumers to purchase North American-made automobiles rather than imports from Asia or elsewhere. Furthermore, these same U.S. subsidiaries were able to reap the benefits of trade agreements Mexico has with other Central and South American countries by exporting vehicles to these growing markets.²⁶ And, lest these same subsidiaries be labeled investments that are diversions from the United States, the Big Three U.S. automobile manufacturers invested only \$3 billion in Mexico between 1993 and 1996 while investing \$39.1 billion in new manufacturing plants and equipment in the U.S.²⁷

Furthermore, according to the AAMA, NAFTA has defused the potential for Mexico to become an "export platform" to the United States for Japanese and other non-North American auto producers with its strong rule of origin (requiring North American components for eligibility for the reduced tariffs under NAFTA). In fact, BMW, Mercedes, and Toyota have all established new plants in the United States since NAFTA's passage.²⁸

The development of Mexico's automotive sector has not diverted investment from U.S. industry. Foreign and U.S. investments continue to be made, with plants re-opened and re-tooled and

capacity increased.²⁹ Automotive employment in the United States has risen by 100,000 net jobs since NAFTA took effect (14.1 percent overall), productivity in the industry grew 7 percent, and hourly earnings grew 5.6 percent since NAFTA.³⁰ Obviously these jobs are not due to only to NAFTA; they are representative of the strong demand for U.S. automotive products both at home and abroad. But the figures indicate that NAFTA is not hurting the automotive industry in this country, and the industry leaders themselves say that the specialization allowed by NAFTA has actually helped.³¹

Computers and Electronic Machinery and Related Software. Intellectual property protection secured under NAFTA and the dismantling of import-substituting requirements in Mexico has allowed U.S. firms to expand sales and to integrate production in Mexico for better global competitiveness.

Electronics exports account for one quarter of U.S. exports to Mexico, followed by machinery (including computers). U.S. exports of computer hardware rose 58 percent from 1993 to 1996, rising at an average rate of nearly 17 percent per year. The United States maintained a 65 percent market share in Mexico in these products, while Mexico's imports from Japan, South Korea, and Taiwan lost market share between 1993 and 1996.³²

Computers and electronics accounted for the top five U.S. imports from Mexico.³³ This evidence of complementarity of trade in computers and electronics indicates industry integration across the borders, once again for economies of scale, productivity increases, and enhanced competitiveness.

NAFTA has already provided for duty-free treatment for U.S. exports of semiconductors, computer parts, and modems. Within seven years, import licenses for used equipment will be eliminated in Mexico for NAFTA partners (providing an important market for the still viable, but older technology discarded in the United States). Strict rules of origin for printers and monitors as well as motherboards encourage North American sourcing, with a process to establish a common external tariff for NAFTA partners within seven years. NAFTA also establishes copyright protection for computer programs produced in North

America, as well as stronger intellectual property protection for the vital semiconductor industry.

There has been virtually no increase in U.S. investment in Mexico's computer sector since NAFTA. Meanwhile, from 1994-96, employment in the computer equipment industry rose 9 percent, with the number of production workers also increasing by 8 percent.³⁴

Textiles and Apparel. U.S. exports of textiles and apparel to Mexico increased 79 percent between 1993 and 1996, despite Mexico's recession. The U.S. share of Mexico's textile and apparel imports rose to 86 percent, from 68 percent in 1993. Mexico's export of these goods to the United States also increased dramatically over that period (from \$1.4 billion in 1993 to \$4.2 billion in 1996). Canada's exports to the United States of these goods doubled between 1993 and 1996 from \$1 to \$2 billion while U.S. exports to Canada rose 39 percent to \$2.7 billion.

These data are emblematic of the shift from the Far East to NAFTA countries that NAFTA prompted in the growing textile and apparel trade. Between 1993 and 1996, total U.S. imports of textile and apparel from China, Taiwan, Hong Kong, and Korea declined 13 percent. Imports from Canada and Mexico more than doubled, but because of NAFTA's strict rules limiting benefits to products made in North America from North American yarn, these imports contain increasing amounts of U.S. components.³⁵

In 1993, 39 percent of U.S. textile and apparel imports were from China, Taiwan, Hong Kong, and Korea. Canada and Mexico accounted for only 7 percent. By 1996, Canada and Mexico accounted for 14 percent, and the value of U.S. imports from these Asian countries was three percent lower than in 1993. In 1996, Mexico became the world's largest clothing exporter by volume, displacing Asian countries.³⁶

The prominent characteristic of U.S. apparel imports from Mexico is shared production, where apparel is cut and sewn in Mexico from U.S. fabric and then returned to the United States. While the number of apparel manufacturers in Mexico has increased, apparel manufacturing in the United States has declined.³⁷ Yet the majority of Mexico's new apparel production capacity is due to shifted production from Asia where Asian fab-

ric was typically employed and not from the United States. New production in Mexico has boosted U.S. textile mill exports. To a lesser extent it has also displaced production from the Caribbean Basin and Central America.

Protection of apparel and textile trade is a global reality that continues to be argued at the World Trade Organization. Certainly NAFTA provisions for these industries were not designed to expose them to pure free trade. North American producers were clearly designed to be favored under NAFTA. There was a conscious path taken by negotiators to support high wage and high technology textile production and jobs in the United States and not to stake out a position to protect the highly mobile low-wage apparel manufacturing sector. This was accomplished with tough rules of origin requiring "fiber-forward" North American content in order to qualify for NAFTA apparel and other tariff benefits.³⁸ Thus, North American, if not U.S.-only, apparel manufacture and textile production were carved out as worthy of special treatment.³⁹

Services. During the 1993 NAFTA debate and the 1992 campaign, the U.S. services sector was denigrated as "hamburger flipping" employment. This did a disservice to the public understanding of what is a vital component of U.S. economic strength. The services sector includes insurance, banking, professional services, environmental, communications, advertising, entertainment and the travel business, among other things. The United States is the leading service exporter in the world, with a \$73.8 billion surplus in 1996.⁴⁰ The demand for services in Mexico and other developing countries is for inputs to manufacturing industries as well as for final consumption.

For the first time in 50 years, NAFTA allowed U.S. financial firms to establish a direct presence in Mexico. It also removed limits on United States and Canadian ownership of Mexican insurance companies—an important and underinsured market. NAFTA allows U.S. service firms either to establish a local presence in Mexico and Canada or to provide their services from the United States directly (with the exception of entertainment, which is still a protected industry in Canada). U.S. service providers must receive the better of national treatment or most-favored nation treat-

ment in Canada and Mexico. In 1995, U.S. exports of insurance, business, professional, and technical services to NAFTA partners were approximately \$8.6 billion, 15.8 percent more than in 1993 before NAFTA.⁴¹

U.S. railroad services are other big winners in NAFTA. Mexico nationalized its railroads earlier this century, expropriating U.S. rolling stock and precluding any participation by U.S. railroads in transporting goods into that country. Since NAFTA, Mexico has begun to privatize the most important trunks of its rail system. And, thanks to NAFTA, U.S. railroad companies have been allowed to bid and own shares on these lines. For example, in June, Mexico's government awarded a 50-year operating concession for the Pacific-North railway, the second rail line offered to private operators in a year. The sole bidder, U.S.-Mexico consortium Grupo Ferroviario Mexicano SA that includes U.S. rail company Union Pacific, offered \$527 million for the 3,875-mile line. The Pacific-North railway is the second of Mexico's three main trunk rail lines to be privatized by the Mexican government.⁴²

In December 1996, the concession for the northeast rail route, which connects the US-Mexico border city of Nuevo Laredo with Mexico City, was awarded to Transportes Ferroviarios Mexicanos (TFM), a partnership that includes U.S.-based Kansas City Southern Industries (KCSI). Before NAFTA's requirements for open bidding and allowing U.S. firms the same rights as Mexican firms, U.S. companies were likely never to have had this business opportunity.

Unfortunately, the United States has reneged on its obligations in an important service covered by the agreement: land transportation. In 1995, the long process of consultation and noteworthy cooperation between the transportation departments of the United States and Mexico, border states, inspection agencies, and others was to have concluded with the implementation of NAFTA's agreement to permit trucks to carry cargo to the contiguous states of the other country provided that these trucks met established safety certification requirements. Despite the desire of shippers to reduce the costly inefficiency caused by switching drivers and trailers at the border, implementation of the provision has been delayed unilaterally by the United States, "an egregious

action for a country of laws" according to trade scholar Sidney Weintraub.⁴³

In retaliation, Mexico has prohibited certain trailers produced in the United States from crossing into Mexico, adversely affecting jobs and manufacturers of certain trailers used for this in the United States.⁴⁴ The land transportation provisions of NAFTA's services coverage were designed to enhance the efficient movement of goods throughout North America, reducing costs to producers and consumers. It was one of the more eagerly anticipated features of NAFTA by those familiar with the bottlenecks at the border. Unfortunately, progress in this important service sector is currently stymied.

Government Procurement. The fact that NAFTA opens opportunities to compete for government contracts may not seem very compelling to those unaware of the control maintained by the Mexican government over key economic sectors. Even during NAFTA negotiations, the value of liberalizing government procurement was not well recognized. But this section of the agreement is truly path-breaking.

Government procurement is usually the last refuge for discrimination against foreign products. In developing countries like Mexico (and others in Latin America) where national and sub-national governments continue to assert considerable control over major infrastructure projects and some key industries, it had been nearly impossible for U.S. suppliers of goods and services to learn of market opportunities, much less to secure them. No transparent open bidding process was required in Mexico. In fact, foreign purchases were explicitly precluded from key industries such as oil (PEMEX) and electricity (CFE, the federal electricity commission).

Under NAFTA, Mexico committed to a very high standard of procurement practices and procedures such as transparent tendering and bid protest procedures, some of which were not yet in place in the GATT Government Procurement Code. To be sure, these changes have been hard to implement down through the levels of state and local government where control over projects and bidding is a long-standing tradition. We have seen innovative tactics to avoid the procurement provisions of NAFTA, not only in Mexico but also

in Canada. But the features of NAFTA allowing for challenges and demands for transparency, have allowed NAFTA partners and their companies to fight back effectively for the first time.

U.S. companies have won major government contracts in the past three years, including a \$650 million contract for a power plant and pipelines, a \$22.5 million natural gas turbo compressors contract, and other major contracts in transportation, computer equipment, and semi-conductors. Perhaps most surprising, Mexico recently opened bidding at the state and local level for long distance service to foreign telecommunications firms. MCI, together with its Mexican partners, has started marketing its services to municipal and state governments, and to date, the 13 municipal governments that have opened their competition have assigned 68 percent of their lines to this partnership.⁴⁵ Such open bidding at the subnational level is unprecedented in Mexico. In Canada, U.S. companies have increased their share of the Canadian procurement market from 7 percent to over 9 percent in just one year between 1994 and 1995.⁴⁶

Agriculture. NAFTA was expected to enhance the complementarity and division of labor between the United States and Mexico in agriculture, with the United States exporting more grains and crops that are land and capital intensive, as well as fruits that grow better in the North, and Mexico supplying its fruits and vegetables. This has occurred. Furthermore, long-standing agricultural disputes are finally being resolved cooperatively in the post-NAFTA climate between the two countries.

Trade is vital to U.S. farmers. U.S. producers now depend on exports for 25 percent of gross receipts and this is expected to increase to over one-third in the next six years.⁴⁷ U.S. agricultural trade with Mexico (growing at 15 percent per year on average) compares favorably with our trade with the rest of the world (a 12.4 percent growth rate).⁴⁸

Mexican government statistics indicate that the United States now has a 75 percent market share of Mexican agricultural imports.⁴⁹ U.S. agriculture exports to Mexico reached a record \$5.4 billion last year, an increase of 46 percent since 1994.⁵⁰ Mexico exported \$3.1 billion to the U.S. Market opening from NAFTA has been especially

important for U.S. sales of grains. Corn exports tripled and soybean exports to Mexico nearly doubled due largely to drought that destroyed crops in northern Mexico.⁵¹ The U.S. Department of Agriculture (USDA) expects Mexico to greatly increase imports of major grains over the next few years to meet a rapid growth in demand for food.⁵² The largest farmer-owned cooperative in North America testified that it sold only 300,000 tons of grain in 1993, but in 1996 it sold 1.9 million metric tons and expected to sell more than two million in 1997. Meat exports, animal feed, and pet food sales have also increased as a result of NAFTA.⁵³

Much has been said about the impact of winter vegetable and fruit imports from Mexico. These have increased, offering consumers seasonal foods year-round, with a broader selection and lower prices. Similarly, U.S. cherries, peaches, apples, etc. have been offering Mexican consumers more choices. Sanitary standards and phytosanitary protections under NAFTA protect consumers, though recent strawberry contamination scares have led to calls for more funding for border inspection. In fact, the U.S. Department of Agriculture's Inspector General found recently that the Agricultural Marketing Service is "overwhelmed" by the influx of products since NAFTA and has allowed "serious violations to occur" at the border.⁵⁴ Congress needs to increase funding for border inspection to handle the increased trade volume.

Most complaints about winter vegetable imports, especially by U.S. tomato producers in

Florida, date from decades before NAFTA. Florida growers complained that Mexican tomatoes could be sold in the United States at reduced prices because of lower production costs. Mexican producers argued that the strong consumer demand for their product was due to a higher quality product—since their tomatoes could be picked riper resulting in a tastier product, while Florida tomatoes are picked green and treated with gas to enhance their red color. A recent International Trade Commission ruling on this matter found unanimously that Mexican tomatoes were not causing serious harm to U.S. producers, but the case continued.⁵⁵ Mexico's tomato growers voluntarily agreed last year to sell their tomatoes in the United States at prices comparable to those sold by producers in Florida.

For its part, the United States has provoked its share of aggravation in the agricultural area with prohibitions on Mexican avocado imports since 1914 to protect California and Florida growers from the risk of pests. This long-standing dispute has also moved toward a compromise resolution. In May 1996, the United States agreed to allow Mexico to export avocados to 19 U.S. states in the Northeast between November and February. Other agricultural disputes being resolved in the climate of increased interaction between NAFTA actors concern grapefruits (Mexico is finally allowing Florida, California, and Arizona to export these), hog and pork (the United States has certified Mexico is free of hog cholera and is allowing these imports), and wheat from Mexico (though wheat disputes with Canada continue over subsidies).

3. The Horror Stories Didn't Happen: Strong U.S. Economy and Minimal Employment Impacts

Back in 1993, H. Ross Perot relied on a study by Pat Choate entitled "U.S. Jobs at Risk: Vulnerable Industries and Jobs Under NAFTA." Perot claimed that six million American workers were vulnerable to low wage Mexican competition or to company relocation to Mexico. Today we find that, despite NAFTA's reduced tariff barriers and an economic crisis in Mexico in 1995 that lowered the value of the peso and made Mexican labor comparatively even cheaper, the United States has not even lost one-fortieth of the 6 million jobs that Perot predicted would be lost. In fact, the economy has created 8.6 million U.S. jobs since NAFTA's inception.⁵⁶

We are enjoying the most stable U.S. economy in thirty years. In 1996, real GDP expanded 2.8 percent. Since 1992, unemployment has fallen from 7.5 to 4.8 percent as of June 1997. Inflation as measured by the Consumer Price Index is approximately 3.5 percent. Core inflation (excluding volatile energy and food sectors) was at 2.6 percent in 1996.⁵⁷

Unemployment is so low this year that *U.S. News & World Report* wrote a special report in June advising workers on how to "cash in on a new reality—bosses are desperate for workers." The lowest unemployment levels in 30 years have spurred Michigan and Ohio to launch advertis-

ing campaigns to lure workers to their states.⁵⁸ Yet we continue to see reports by the AFL-CIO equating the U.S. global trade deficit and the recent crisis-induced trade deficit with Mexico with immense job losses.

In the three and a half years since NAFTA began, 132,000 persons were certified as negatively affected under the self-reporting and certification of the Trade Adjustment Assistant program for NAFTA (NAFTA-TAA). NAFTA-TAA does not require that the negative effect be correlated with increased opening of trade between NAFTA countries, just that the trade was with NAFTA countries or that the plant closing was related to investment in our other NAFTA partners. Given that the U.S. jobs have increased by 8.6 million since NAFTA's inception (at a rate of 2.2 to 2.5 million per year) the 132,000 jobs impacted amount to two weeks of U.S. job creation.⁵⁹

Anti-NAFTA organizations like Public Citizen claim that NAFTA "is causing major U.S. job loss," and they base their claim in part on the NAFTA-TAA numbers.⁶⁰ The *Wall Street Journal* looked into the circumstances behind some NAFTA-TAA certifications and revealed cases where neither the firm nor the laid off workers actually could lay the blame on trade or investment with either Mexico or Canada, nor on NAFTA.⁶¹ In the same

report by Public Citizen, U.S. firms are criticized for unfulfilled promises to create more U.S. jobs by trading with Mexico. Yet their survey was taken in the midst of the Mexican crisis and its aftermath. No mention is made of how Mexico's economic decline and subsequent rapid recovery might have affected export-supported jobs in the United States.

Having concluded that NAFTA-TAA certification is not an ideal measure of job impacts of NAFTA, UCLA's North American Integration and Development Center (NAID) is developing a new methodological approach for estimating the sectoral, regional, and aggregate impacts on the U.S. labor market of increased international trade. Researchers at NAID argue that previous studies have far over-estimated job displacements due to imports from Mexico, and to a lesser extent, the number of jobs supported by exports to NAFTA countries.⁶² Using this methodology, NAID's report on *North American Integration Three Years After NAFTA* finds:

- The overall positive or negative employment impacts of U.S.-Mexico trade have not been significantly affected by the liberalization of tariffs due to NAFTA.
- The net employment impacts due to NAFTA tariff liberalization have been slightly positive, representing a very small share of new jobs being supported by exports to Mexico.

- The overall U.S. employment impact of NAFTA has been slightly positive, even taking into account the large impact of the peso crisis of 1995.
- Job losses related to imports have actually declined when comparing pre- and post-NAFTA periods.⁶³

NAID estimates a fifty percent undercount in NAFTA-TAA numbers. Even so, with the dynamism of the U.S. labor market kept in mind, the total at-risk jobs since NAFTA's inception are approximately one month's worth of job creation.⁶⁴ Together with other experts, the researchers at NAID emphasize that it is more important to focus on trade's impacts on productivity growth and welfare gains rather than short-term employment effects.

Proponents and opponents of NAFTA know that "success stories" or "disaster stories" play longer and better in the media and public imagination. A thoughtful audience will remember that in an economy the size of the United States with hundreds of thousands of businesses, anyone can find any number of anecdotes to support his or her own position. The truth must be discovered in the drier realm of employment and trade statistics. The macroeconomic data indicates that NAFTA has locked in the trade liberalization and market opportunities begun by Mexico, unilaterally, in the 1980s while not hurting the U.S. labor market in any way.

4. The Mexican Crisis: NAFTA Helped U.S. Exports and Mexico's Recovery

Much of the criticism of NAFTA is derived from the sudden decline in U.S. exports to Mexico in 1995 and increased imports from that country. It is important to discuss what caused this temporary shift in the trade balance, because it had nothing to do with the reduction of tariffs under NAFTA.

Beginning in the very first year of NAFTA and continuing through 1995, Mexico suffered several political shocks triggering its worst (but shortest) recession in 50 years. NAFTA did not cause the economic crisis in Mexico. A balance of payments crisis resulting from a peso devaluation undertaken shortly after the change in presidential administrations in late 1994 compounded a series of violent events in Mexico that year that denoted political instability. These events resulted in capital flight (not only because of events in Mexico, but also because U.S. interest rates made our market more attractive for investors) and a further decline in the value of the Mexican peso. GDP declined seven percent and private consumption declined 13 percent in the subsequent 19 months. Unemployment doubled, inflation increased six-fold to 45.7 percent, and interest rates went as high as over 100 percent.⁶⁵

As developing countries like Mexico become globalized in their financial systems and invest-

ments, the United States has a stake in their economic stability. Mexico's recovery was most definitely in the U.S. self interest; our exports to that country have a virtually direct correlation with that country's GDP growth.⁶⁶ When our neighboring market needed help in 1995, the United States led a coalition with a number of central banks and the International Monetary Fund (IMF) to provide a short-term swap loan which Mexico could draw down if needed. The U.S. share of the \$50 billion package was \$20 billion provided through the Exchange Stabilization Fund set up in the 1930s. This was repaid, early, by Mexico and brought the United States \$500 million more in interest than it would have under domestic interest rates. By the second quarter of 1996, Mexico's economy was in strong recovery.⁶⁷

Despite Mexico's recession, trade between the United States and Mexico continued to grow over the three years of NAFTA. In fact, U.S. exports did not decline nearly as drastically, nor for as long, as they did in Mexico's previous economic crisis in 1982. Why? Because Mexico was prevented from imposing import barriers to its NAFTA partners (while increasing tariffs on products from other parts of the world). Furthermore, U.S. imports contributed to Mexico's export-led recovery.⁶⁸ U.S. exports to Mexico actually in-

creased by 11 percent over the three years of NAFTA.⁶⁹ In the previous peso crisis of 1982, U.S. exports to Mexico dropped by 50 percent.⁷⁰ Furthermore, full recovery of U.S. exports to the growth rate of pre-crisis 1994 level took only 19 months. By contrast, recovery took seven years after 1982 because of import barriers Mexico

raised to our products (tariff rates raised to 100 percent and import licenses imposed on all products) and Mexico's nationalization of major sectors of the economy, namely banking.

In 1996, Mexico's GDP returned to 5.1 percent growth and U.S. exports surpassed their pre-NAFTA peak by \$15 billion to a record \$57 billion.⁷¹

5. Results of NAFTA Quiet Good News

The positive results of NAFTA are not found only in increased trade between our three countries and increased U.S. exports, but also in the fact that we are seeing trade in sectors where there previously had been no opportunities (such as services and procurement). Until recently, most trade agreements have been tariff reduction agreements. One reason NAFTA is a landmark agreement is because of the wide range of its other trade-enhancing provisions, particularly related to investment. No understanding of NAFTA's importance to the United States is possible if these other elements are not appreciated. In addition to tariff phaseouts on manufactured and agricultural trade, no less than fifteen non-tariff accomplishments of NAFTA are significant [See Box 1].

This cursory list illustrates NAFTA's comprehensive nature. The careful attention to establishing rules and procedures to provide predictability and safeguards for the vast flows of trade and investment already taking place before negotiations started is one of its under-appreciated accomplishments. The principles covered by NAFTA now serve as the terms of reference for other trade agreements to which the United States is not even party.

Perhaps most important, all of this new

and increased trade is occurring tranquilly. It is testimony to the agreement's quality that there have been notably few disputes given the fact that North American trade has increased 44 percent since NAFTA was signed.

Box 1. Non-Tariff Accomplishments

Inputs

1. *Opportunities for integrated production in various sectors* (most notably automobiles) to more efficiently meet demand in the North American market and be more competitive outside of NAFTA, by allowing for barrier-free movement of production inputs and the services that support production.

2. *Rules of origin* to ensure that the agreement would encourage manufacturers to use inputs produced within North America and discourage disguising non-North American products as North American by adding only marginal value before final sale.

Transparency

3. *Norm of transparency for standards* (to discourage non-tariff trade barriers) requiring that standards be clearly based on verifiable criteria (e.g. environmental, scientific, health and safety) and that parties be given adequate notification and opportunity to comply.

4. *Open system for bidding on government contracts in each other's countries (important for market access in Mexico where the public sector still accounts for a large part of the market).*

Services

5. *Access to Mexico's once-closed financial services markets and dramatically increased opportunities in other service sectors such as insurance, construction, and telecommunications.*

6. *Certified professionals allowed to work across borders in NAFTA countries (important for trade services).*

Investment

7. *No trade and investment restrictions impeding U.S. auto exports.*

8. *Permanent rights of investors to control Mexican subsidiaries and protect them against any future reversal of Mexican (or Canadian or U.S.) investment rules.*

Conflict Resolution/Protections

9. *Procedures for dealing with private commercial or agricultural disputes.*

10. *Ongoing working groups to share information, to deal with NAFTA implementation concerns, and manage and diffuse difficulties concerning various sectors and issues addressed in the agreement.*

11. *Dispute resolution panels effectively extending U.S. legal protections to American businesses on Mexican soil.*

12. *Higher level of intellectual-property-rights protection than any other bilateral or multilateral agreement (of great interest to U.S. high technology, entertainment, and consumer goods producers).*

Environment

13. *Prohibition to relax environmental and worker safety standards to attract investment, as well as preservation of each party's ability to maintain strong health, safety and environmental standards.*

14. *Establishment of the Border Environment Cooperation Commission (BECC) and North American Development Bank (NADBank) to address the environmental problems in the U.S.-Mexico border region and the paucity of capital in the region needed to invest and solve these problems.*

15. *Institutions to study cross-border problems and attempt to resolve them and increase mutual understanding of each other's systems, and to receive and manage citizen complaints and disputes.*

- The automobile industry is reaping outstanding benefits from NAFTA, as are computer and electronics, services, textiles industries, and agriculture, among other sectors.
- Disputes have been proportionally few, and several of these are the culmination of disputes that have been ongoing for decades.
- The level of interchange, not only between businesses in North America, but also between policymakers (especially at the functionary levels where the wheels of trade and policy truly turn and affect outcomes on a daily basis) is at unprecedented levels. This means that many disputes are resolved before they become crises.
- The atmosphere generated by the ongoing interaction between NAFTA partners is such that there is an expectation of cooperation and resolution even in areas where there are real differences between the parties.
- The interaction, stability, and procedures NAFTA established are important indicators of the agreement's positive effect.

Dispute Mechanisms

Only a decade ago our companies had limited recourse if they felt they had been treated unfairly in Mexico. NAFTA has provided clear and transparent procedures to expedite the resolution of disputes. NAFTA established panels for resolving disputes in the areas of antidumping and countervailing duties (AD/CVD) in Chapter 19, and violations of provisions of the agreement or acting to nullify expected benefits in Chapter 20. Two cases have been brought forward under Chapter 20 and some 29 under Chapter 19. Thirty cases may sound like a lot in three years, but when the scope of the agreement is considered, as well as the vast amounts of trade and investment flows covered under NAFTA's legal boundaries, the number is surprisingly low.

Before NAFTA there was no standard way for small businesses and those engaged in regular commercial activities in Mexico to safeguard against

and resolve the inevitable periodic disputes and commercial frictions. NAFTA created an international dispute resolution center. In December 1995, the creation of the Commercial Arbitration and Mediation Center for the Americas (CAMCA), the first international dispute resolution center founded to resolve private, cross-border commercial disputes relating to NAFTA, was announced. Formed by the American Arbitration Association, the British Columbia International Commercial Arbitration Centre, the Mexico City National Chamber of Commerce, and the Quebec National and International Commercial Arbitration Center, the CAMCA has a multi-national roster of neutral arbitrators and mediators; publishes guidelines and sample text for parties to insert into their contracts in advance of doing business that will provide for mediation in case of disputes; and studies, promotes, and administers procedures to resolve disputes through arbitration, mediation, and conflict resolution.⁷²

Institutions and Ongoing Consultations Lubricate the Relationship. The array of institutions and working groups established by NAFTA has also made an important contribution to the success of the agreement. Regular interaction by the players and policy experts in the numerous issue areas covered by NAFTA has been valuable in quietly helping the businesses and citizens affected by North American trade and investment.

There are twenty-four committees and working groups dealing with every area of NAFTA, staffed by officials from the relevant agencies for these issues from all three countries. Rather than waiting for a crisis to bring these officials together, the committees and working groups offer a regular opportunity to exchange information, learn more about each other's activities, and defuse problems before they erupt.

The more visible institutions established under NAFTA are:

- *Commission for Environmental Cooperation* (CEC): environment secretaries of the three countries with a secretariat and council located in Montreal.
- *North American Agreement on Labor Cooperation* (NAALC): labor secretaries of each country with a secretariat and executive director in Dallas, Texas.
- *Border Environment Cooperation Commission* (BECC): a bilateral commission of presidentially appointed members from the United States and Mexico with an office and general manager in Juarez, Mexico.
- *North American Development Bank* (NADBank): U.S. Secretary of the Treasury, the U.S. Secretary of State, the U.S. Administrator of the Environmental Protection Agency, Mexico's treasury minister, social development minister and trade ministers, as board of directors located in San Antonio, Texas.

The labor and environment institutions under NAFTA were unprecedented, and consequently took a while to get off the ground. It is really too early to definitively claim success or failure. The Labor and Environment commissions must grapple with their dual nature of models for cooperation contrasted with their role as official finger-pointers and potential enforcers with trade sanctions. The punitive flavor of the institutions detracts from the atmosphere required for productive collaboration. The NADBank and BECC are slow to certify and fund projects, though they have made significant strides in bringing the border communities into the process of their own infrastructure development by raising their understanding of how to structure and manage such projects. The border institutions have not attracted the confidence nor significant amounts of partnered lending, however, of the private infrastructure finance community.

The scope of NAFTA's supporting structure is nowhere near as large as that of other regional trading agreements, and certainly nothing like the enormous bureaucracy of the European Community.

Nonetheless, it provides an important opportunity for regular interaction by the key policy

players in the relationship and opportunities to resolve problems.

Labor, environment, and border institutions are important experiments for learning how to create multilateral mechanisms to address these difficult issue areas. Their scope is complex, and

their activities have been controversial and warrant more discussion and analysis than can be covered in this paper. A forthcoming Progressive Policy Institute paper will address these issues in greater detail.

6. What Remains to be Fixed?

On the whole, the parties to the agreement are staying within the boundaries of behavior set by NAFTA. When so many of the rules of the game have been changed, occasional deviations from the intent of the agreement are to be expected (whether from ignorance, or adherence to old ways of doing business, or other reasons). Irritations like the blocking of U.S. and Canadian Christmas trees at the Mexican border, ostensibly for lack of having been sprayed for pests that only live in the trees in the summer, are part of the backsliding that can be characterized as “revenge of the nerds” syndrome. That is why the ongoing consultative working group mechanisms are so important. In the past, resolution of these sorts of commercial problems would have been slow, channeled through formal diplomatic channels, often never to be fixed.

In addition to the U.S. failure to comply with NAFTA’s timetable on trucking safety certification and access, the U.S. International Trade Commission (ITC) found the following additional problem areas under NAFTA in its recent review.⁷³

Country-specific

In Mexico (largely related to a lack of transparency and predictability in Mexico’s administration of trade rules):

- Unpredictable administration of tariff-rate quotas (TRQ’s) on agricultural products (TRQs were set, allowing a set amount—a quota—of goods into the country under reduced or no tariffs, with a tariff rate imposed when the quota is exceeded. TRQs were set based on historical trade levels before NAFTA.)
- Onerous labeling and certification requirements for consumer goods, processed foods, and apparel.
- Difficulties with testing procedures and technical standards for telecommunications terminals.

In the United States:

- Safeguard measures imposed to raise tariffs to protect our production of broom corn brooms (a tiny low-wage industry).
- Slowness in resolving animal and plant health-related restriction (including the threat of legislation requiring country-of-origin labeling for agricultural products).
- Implementation of sugar quotas and the U.S. sugar re-export program.

In **Canada** (largely due to gaps in NAFTA coverage and differences in opinion over rules):

- High post-Uruguay Round agricultural tariffs.
- Subsidies for lumber and wheat.
- Protection of cultural industries.

Remaining Reforms

Progress is needed in several other areas.

Judicial reform in Mexico: While NAFTA provides U.S. investors with national treatment in Mexico, it does not address the continued need for reform of the judicial system for review of government actions in Mexico. There needs to be more transparency and clear adherence to the letter of the law. This problem in Mexico is nowhere near the scope, however, of similar difficulties in Asian markets.⁷⁴

Trade Diversion and Distortions: As we strive to move the world toward full and open trade, it is not a good precedent for the United States to allow its trade agreements to result in trade diversion. Furthermore, U.S. inaction on following through on commitments to extend NAFTA to Chile and other countries in the hemisphere is causing U.S. businesses to lose out to their Canadian and Mexican counterparts who benefit from lower barriers to those markets. For example, Washington state apple growers are losing market share in Chile to Mexico, which already has a free trade deal.⁷⁵ Already 20 other trade agreements in our hemisphere have been signed without U.S. participation.⁷⁶ The European Union has expressed interest in negotiating with Mercosur, and opening its trade with Latin America. Already in June 1997, Mexico and the European Union took concrete steps toward free trade with plans to start negotiations in the spring of 1998.⁷⁷ Without presidential fast track authority, and the assurance that agreements negotiated with the United States will not be reworked by the 435 members of the U.S. Congress *ex post facto*, these other important and growing markets for U.S. products will not be opened to American goods and services and the jobs they provide.⁷⁸

Other Problems in the Bilateral Relationship: Improved relations due to the many mechanisms for cooperation in trade and investment matters under NAFTA are threatened periodically by eruptions in the problem areas of narcotics and migration. Extra-territoriality and perceived violations of sovereignty by the United States as represented by the Helms-Burton Act are also irritants. Critics of NAFTA link these issues to the trade agreement, when it is more noteworthy to point out that our biggest problems lie in those areas that are not governed by the formal arrangements, agreements, and institutions that NAFTA provides.

In the United States, an anti-immigrant sentiment prevails despite the lowest unemployment in decades. In Mexico, the recent U.S. immigration law, coupled with publicized incidents of police abuse of illegal immigrants, are perceived as indications that the United States is anti-Mexican. Nonetheless, progress on migration and narcotics has accelerated since NAFTA's implementation, perhaps due to the growing comfort and familiarity between the policy leaders of both countries that has arisen from not only NAFTA's on-going institutional collaboration, but also from the increasingly meaningful meetings of the Binational Commission of executive agencies on both sides of the border. In fact, a comprehensive study of migration, by a team of binational demographic and migration specialists commissioned by Presidents Clinton and Zedillo, will be released in September 1997.⁷⁹ And cooperative anti-narcotics measures were announced on President Clinton's visit to Mexico in April of this year.

It is true that the U.S.-Mexico relationship reaches far beyond the trade and investment governed by NAFTA. The same political courage and long-view that were necessary to undertake this agreement between a rich and a developing country are necessary to manage the more troublesome issues of migration and narcotics.⁸⁰

Improved Trade Data: Ignorance and fear are fueled by a lack of adequate data and the difficulty of empirically measuring the employment effects of NAFTA. Periodically the State Department, U.S. Trade Representative, and members of Congress clamor for this data, but Congress has been unwilling to fund it on a regular basis. The International Trade Administration is currently trying to

develop employment statistics for traders on a state and sectoral level—essentially restarting the “export origin” series that was stopped for lack of funding in 1992. The Census of Manufacturers (taken every five years) and Survey of Manufacturers (undertaken annually) ask trade and employment questions that would allow profiles of U.S. traders by industrial sector and region. Unfortunately, these statistics are not compiled into reports because of budget constraints. It would cost \$750,000 to start up such a project and \$500,000 per year to continue it.⁸¹ The regular release of this kind of information would go a long way toward removing the reliance on anecdotal success and horror stories that pervade the discussion of trade today.

Modernize Workers’ Tools for Adapting to Change: Beyond providing regular statistics on

trade and employment, we need to address directly the apprehension about employment security that persists in the U.S. public despite record employment levels and low inflation. This means giving individuals the power to control their own employment destinies with voucher-supported training and more meaningful adjustment assistance. The Progressive Policy Institute has advocated increased public investment in human capital and proposed innovative solutions to the education and training needs of American workers. During a period characterized by a shortage of skilled labor and high unemployment for high school drop-outs, we, as a country, are about to experience the by-product of underinvesting in the education of our workforce.

7. Public Opinion: Removing Fear and Loathing from the Trade Discussion

With NAFTA working well for the United States, why do protectionists continue to find an audience for their isolationist sentiments? Perhaps because the benefits of applying rules and standards of behavior to ongoing global trade and investment have not been communicated well to the general public. When the purpose of trade agreements is explained (to expand access for U.S. goods and services in world markets), then the public supports such agreements. But in the absence of that information, the public is apprehensive about the impact of trade agreements on job security in the United States.

A recent survey undertaken by the Democratic Leadership Council found that support for expanding trade is strong among all voters. Two-thirds of voters see global integration as a necessary and positive action. Sixty-seven percent think it is better to be aggressive at opening up markets, while only 22 percent think it is better to limit trade and be protectionist.

While supportive of free trade and rejecting protectionism, voters have concerns about the effect of trade on their jobs and families and believe corporations may benefit more than the average American.⁸²

A poll undertaken by EPIC/MRA of Lansing, Michigan for the Association of Women in International Trade, found that 61 percent of respondents approved of free trade agreements with other countries, and 88 percent agreed that America's economic strength in the future depends on our ability to compete in the global market place. Yet 47 percent thought the United States should either change or pull out of NAFTA, versus 30 percent who thought the United States should continue the agreement as is. Three quarters were unaware that the United States is the world's largest exporter. Sixty percent were unaware that America's exports have doubled over the last seven years. They were skeptical about the value of labor, environment, or human rights linkages to international trade, but still thought the United States should make these links.⁸³

Trade is too important to the U.S. economy to continue being misunderstood. Better information about the impact of trade must be collected on a regular basis and become part of the standard reporting of the federal government. Progressive approaches to dealing with the highly mobile nature of capital and firms, which is a feature of the modern world economy, must be put in place.

8. Conclusion

N AFTA is an important and solid agreement. It protects the interests of U.S. employers and investors and those of our trading partners. It contains important principles that will benefit U.S. employers when they are extended to other regional markets. It provides boundaries for behavior in the global market that protect U.S. interests. NAFTA puts in place rigorous rules for governing trade, setting a higher standard than previous agreements. While these rules have been good for North America, their value lies in serving as a template to expand these principles to other key markets.

Furthermore, through the vehicle of trade liberalization, NAFTA has introduced to Mexico important principles of transparency, the right to appeal government decisions, public access to information (about trade, labor, the environment), and a number of other issues that make up the foundation of an open, pluralistic, and democratic society.

Institutions, working groups, and mechanisms that NAFTA created have smoothed the path to allow North American businesses to trade, invest, and position themselves for better productivity and comparative advantage—thus making our economies stronger against shocks, such as Mexico's 1994 crisis. These features of NAFTA

don't just safeguard U.S. businesses, they protect the technology, processes, and markets that provide employment for our workers, too.

As the world's leading exporter, the U.S. economy will continue to be deeply involved in the global market. The prospect of free trade without the kinds of guidelines, safeguards, and predictability epitomized by NAFTA should be far more alarming than the prospect of further U.S. leadership in global trade negotiations.

We need to extend the principles embodied in NAFTA to the rest of the hemisphere. Having hemispheric trading partners who advocate the same principles at the WTO will give the United States leverage to lead the global marketplace to a new era of open and fair trade.

NAFTA is designed to be expanded. It contains a "docking" or accession clause that would allow other countries to sign on to its provisions. Since NAFTA went into effect, however, a number of other developments have occurred in our hemispheric trading environment. It behooves the United States to ensure that any future trade agreements not only meet the standards included in NAFTA, but also cover current conditions with the proposed trading partner(s) and anticipate future needs. In this regard, the founding principles and approach epitomized in NAFTA should be used as

the basic architecture for future hemispheric agreements, even if such agreements are not "accessions" to NAFTA per se.

Though the next round of fast track is needed for much more than negotiating agreements with the rest of the Americas, no one should forget how important Latin American markets are to our economic future. Latin America is one of the two fastest growing regions in the world (with the developing countries of Asia being the other).⁸⁴ For the first time in 1996, hemispheric exports exceeded \$1 trillion.⁸⁵ The Mercosur countries alone represent a market of 220 million consumers with a combined GDP of more than \$1 trillion.⁸⁶ Twenty trade agreements have been negotiated within the hemisphere without U.S. participation. Talks currently underway between Mercosur and Canada, Mexico, Venezuela, and the Andean Community threaten to make the Mercosur model (of higher tariffs and external barriers to non-participants) the framework for

trade in the Americas.⁸⁷ Any further delay in asserting U.S. leadership in trade negotiations with Latin America may hurt U.S. interests.

The plain fact is, U.S. trade partners will not engage in comprehensive trade negotiations until they are assured that the deals reached will not be watered down or changed in the process of congressional approval. That assurance is provided by fast track authority for the president. While trading partnerships are being cemented throughout the hemisphere, the United States is being left out of the bargaining. Our partners would prefer the status quo with the United States to bad faith negotiations.

Congress must give President Clinton the tool that all previous presidents have wielded to assert U.S. leadership in the world marketplace—fast track trade negotiating authority. Without it, the United States is not welcome at the bargaining table.

Endnotes

- ¹ *The New Democrat* Editors, "NAFTA and the National Interest" *The New Democrat*, Volume Five, Number 4, (November 1993): 5-6.
- ² Mercosur is a trade agreement between Brazil, Argentina, Paraguay, and Uruguay (with Chile signing on as a "plus one") that is classified as a customs union because it establishes a common external tariff barrier to products from outside the region while reducing trade barriers between the members of Mercosur.
- ³ Canadian Conference Board Report on NAFTA Economic Growth (Montreal: Notimex News Service, (August 7, 1997).
- ⁴ Study on the Operation and Effects of the North American Free Trade Agreement (Report of the President of the United States, July 1997): i and 1.
- ⁵ Mexico expert political commentator and editor of the magazine *Courrier International*, Jean Michel Boissier, is quoted in the Mexican magazine *Siempre*, as saying that "NAFTA has importance in the fall of the PRI...This democratic opening is a direct consequence of the free trade agreement...With NAFTA, Mexico has become a more visible country..." (*Siempre*, August 27, 1997).
- ⁶ "Government reports GDP growth at 8.8 percent in second quarter & 7 percent in January-June" (SourceMex on-line newsletter, <http://ladb.unm.edu/>, September 20, 1997).
- ⁷ Testimony before U.S. International Trade Commission (USITC) hearings on NAFTA (Gary Hufbauer and Jeffrey Schott, May 15, 1997): 3.
- ⁸ Canadian Conference Board, (Montreal: Notimex News Service).
- ⁹ Study on the Operation and Effects of the North American Free Trade Agreement (Report of the President of the United States, July 1997): i and 1.
- ¹⁰ *Ibid.*, i and 1.
- ¹¹ Regina Vargo, Deputy Assistant Secretary for the Western Hemisphere, U.S. Department of Commerce, before the Subcommittee on International Economic Policy and Trade of the House International Relations Committee (March 5, 1997): 5.
- ¹² U.S. Trade Representative (USTR), "1996 Annual Report of the President of the United States on the Trade Agreements Program" (<http://www.ustr.gov/reports/tpa/1997/part3.html>): 2.
- ¹³ "U.S. Trade With Mexico during the Third NAFTA Year" *International Economic Review* (U.S. International Trade Commission, April 1997): 11.
- ¹⁴ *Ibid.*, 11.
- ¹⁵ Study on the Operation and Effects of the North American Free Trade Agreement (Report of the President of the United States, July 1997): 39.
- ¹⁶ "North American Integration Three Years after the NAFTA: A Framework for Tracking, Modeling, and Accessing the National and Regional Labor Market Impacts" (North American Integration and Development center, UCLA,. <http://naid.spps.ucla.edu/NAFTA96/Introduction.html>, December 1996): Chapter 3, p. 13.
- ¹⁷ Sidney Weintraub, "NAFTA at Three: A Progress Report." *The Center For Strategic and International Studies*, (1997): 17-18 and 33-34—on the specialization effect.

- ¹⁸ Executive Summary, p. iv.
- ¹⁹ Testimony before U.S. International Trade Commission (USITC) hearings on NAFTA (Gary Hufbauer and Jeffrey Schott, May 15, 1997): 5 and Table 14.
- ²⁰ "NAFTA: The Right Track for U.S. Trade Policy" (National Foreign Trade Council, 1997): 5.
- ²¹ Economic Report of the President, (Council of Economic Advisors, February 1997): 256, Charts 7-8
- ²² Ibid., 255.
- ²³ State NAFTA Reports Executive Summary, (Council of the Americas, May 1997): 1.
- ²⁴ Andrew H. Card, President & CEO, American Automobile Manufacturers Association, (USITC Hearing, May 16, 1997): 2-3 and Regina Vargo, 2.
- ²⁵ Andrew Card, "Impact of North American Free Trade Agreement on U.S. Automotive Exports to Mexico" (U.S. Department of Commerce, http://www.ustr.gov/reports/nafta/auto_96/index.html): 1, 4.
- ²⁶ Ibid., 1-2.
- ²⁷ Study on the Operation and Effects of the North American Free Trade Agreement (Report of the President of the United States, July 1997): 46.
- ²⁸ Andrew Card, AAMA, "Impact of North American Free Trade Agreement on U.S. Automotive Exports to Mexico" (U.S. Department of Commerce, http://www.ustr.gov/reports/nafta/auto_96/index.html): 3.
- ²⁹ Ibid., .2-3. This gives an extensive list of specific plant re-openings and investments made in the United States.
- ³⁰ Study on the Operation and Effects of the North American Free Trade Agreement (Report of the President of the United States, July 1997): 46.
- ³¹ Andrew Card, AAMA and "Impact of NAFTA on Automotive Exports." Study on the Operation and Effects of NAFTA, p. 56.
- ³² Study on the Operation and Effects of the North American Free Trade Agreement (Report of the President of the United States, July 1997): 59.
- ³³ North American Integration, Chapter 3, p. 13.
- ³⁴ Study on the Operation and Effects of the North American Free Trade Agreement (Report of the President of the United States, July 1997): 56.
- ³⁵ Ibid., 85-86.
- ³⁶ Executive Summary, p. vi and *International Economic Review*, (April 1997): 5-11.
- ³⁷ Of the total 557 NAFTA-TA certified manufacturing firms, 19.9 percent were apparel firms (an over-representation when compared to the fact that apparel firms account for only 6.3 percent of all U.S. manufacturing firms) according to NAID, North American Integration, Chapter 5, p. 2.
- ³⁸ Fiber or yarn-forward rules of origin require that a fabric must be made from North American materials from the level of the fiber (e.g. cotton or wool) or the yarn made from these fibers on until the final product (clothing, carpet, fabric).
- ³⁹ William A. Orme, Jr., "The NAFTA Debate-Myths Versus Facts—the Whole Truth about the Half-Truths," *Foreign Affairs*, Vol. 72, No. 5 (November/December 1993): 4.
- ⁴⁰ USTR 1996 Annual Report of the President of the United States on the Trade Agreements Program." World Wide Web, <http://www.ustr.gov/reports/tpa/1997/part3.html>): 11-12.
- ⁴¹ Survey of Current Business, USDOC (1996).
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- ⁴³ Sidney Weintraub, "NAFTA at Three: A Progress Report." The Center For Strategic and International Studies, (1997): 50.
- ⁴⁴ Remarks by Congressman Steve Buyer, U.S. International Trade Commission, Hearings (May 15-16, 1997): 3-8.
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- ⁴⁷ Stephen P. Dees, Farmland Industries, Inc., "The Impact of the North American Free Trade Agreement" U.S. ITC Hearings (May 12, 1997):1.
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- ⁴⁹ "NAFTA Works," Embassy of Mexico NAFTA Office, (Vol. 2, Issue 4): 1.
- ⁵⁰ "U.S. and Mexico Announce Agreement to Open Markets for Some Agricultural Products" (SourceMex on-line newsletter, <http://ladb.unm.edu/>, May 14, 1997).
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- ⁵³ Stephen P. Dees, Farmland Industries, Inc., "The Impact of the North American Free Trade Agreement" U.S. ITC Hearings (May 12, 1997): 2.
- ⁵⁴ Phillip Klutts, National Farmers Union, Testimony before the USITC (May 15, 1997): 6.
- ⁵⁵ "Fresh Tomatoes" Report to the President on Investigation No. TA-201-64, USITC (July 1996): 1.
- ⁵⁶ Study on the Operation and Effects of the North American Free Trade Agreement (Report of the President of the United States, July 1997): 11.
- ⁵⁷ Economic Report of the President 1997, Council of Economic Advisors (1997): 22, 76.
- ⁵⁸ Amy Saltzman, "Making it in a Sizzling Economy" *U.S. News & World Report* (June 23, 1997): 50.
- ⁵⁹ Testimony before U.S. International Trade Commission (USITC) hearings on NAFTA (Gary Hufbauer and Jeffrey Schott, May 15, 1997): 3.
- ⁶⁰ "NAFTA's Broken Promises: Failure to Create U.S. Jobs-NAFTA's Three Year Reality: Spiraling Job Loss and Trade Deficits Instead of Job Creation" *Public Citizen* (February 1997): 1.
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- ⁶² "North American Integration Three Years after the NAFTA: A Framework for Tracking, Modeling, and Accessing the National and Regional Labor Market Impacts" (North American Integration and Development center, UCLA., <http://naid.spps.ucla.edu/NAFTA96/Introduction.html>, December 1996): 9.
- ⁶³ Ibid., 5.
- ⁶⁴ Ibid., 6, 8; Testimony before U.S. International Trade Commission (USITC) hearings on NAFTA (Gary Hufbauer and Jeffrey Schott, May 15, 1997): 3; Sidney Weintraub, "NAFTA at Three: A Progress Report." The Center For Strategic and International Studies, (1997): 11.
- ⁶⁵ "NAFTA: Past Experience and Future Prospects, 45th (Manuel Suarez-Mier, Annual Management Conference, Graduate School of Business, The University of Chicago, April 1997): 1.

- ⁶⁶ Regina K. Vargo, Deputy Assistant Secretary for the Western Hemisphere, U.S. Department of Commerce, before the Subcommittee on International Economic Policy and Trade of the House International Relations Committee (March 5, 1997): Chart 2.
- ⁶⁷ For a discussion of the Mexico peso crisis there are numerous references, but the following give an overview: Sidney Weintraub, "NAFTA at Three: A Progress Report." The Center For Strategic and International Studies, (1997): chapter 4; and Geoffrey J. Bannister, "The Economic Context of the Mexican Crisis" Research Paper Series No. 29 (University of New Mexico, Latin American Institute, September 1996).
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- ⁶⁹ Ibid., 28, Figure 1.
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- ⁷¹ Ibid., 4; and Executive Summary, USTR. p. 6.
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- ⁷³ "NAFTA Commission Meets Amidst Debate Over Accord's Expansion" *International Economic Review*, 14.
- ⁷⁴ Interview with Robert Herzstein, Shearman & Sterling, (Washington, D.C., June 11, 1997).
- ⁷⁵ Regina K. Vargo, Deputy Assistant Secretary for the Western Hemisphere, U.S. Department of Commerce, before the Subcommittee on International Economic Policy and Trade of the House International Relations Committee (March 5, 1997): 7.
- ⁷⁶ Ambassador Charlene Barshevsky, USTR, Testimony before the Trade Subcommittee of the House Ways and Means Committee (March 18, 1997).
- ⁷⁷ "Mexico and Europe Seek Trade Accord" *El Financiero International Edition*, (June 16-22, 1997): 1.
- ⁷⁸ There is ample opportunity for congressional and business input to negotiations before and during free trade negotiations, if NAFTA is any example. By the time NAFTA was signed, over 1,000 consultations (averaging two per working day from the moment negotiations began with Congress and industry groups) had been held. Source: USTR NAFTA Sourcebook 1994.
- ⁷⁹ The report finds that the number of undocumented Mexican workers settling in the U.S. each year is 105,000 as opposed to the 1 million per year estimated by such political figures as Patrick Buchanan and Governor Pete Wilson. Source: "Paper: Illegals Fewer than Thought" *Associated Press*, (September 1, 1997 New York, AOL On-Line News Service).
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About the Author

Rebecca Reynolds Bannister (rebecca@ladb.unm.edu) is a Fellow of the Progressive Policy Institute. She is currently director of the Latin America Data Base at the University of New Mexico, an on-line news service and searchable archive available on the World Wide Web (<http://ladb.unm.edu/>) producing weekly reports about Latin America.

Previously she served as executive director of the North American Institute, a tri-national public policy research group in Santa Fe. Ms. Bannister worked for NAFTA's passage as deputy director of the Council of the Americas' Washington, D.C. office from 1993-94. From 1990-93, she worked for the International Trade Administration of the U.S. Department of Commerce as director of commercial programs (to help businesses get ready for NAFTA) in the Office of Mexico, and as special assistant to the deputy under secretary for international trade and advisor to the under secretary for international trade on NAFTA issues. During this period she conceived and organized the first U.S.-Mexico border infrastructure finance conference headed by Commerce Secretary Ron Brown and Mexican environment and infrastructure Secretary Luis Donaldo Colosio. From 1987-90, she was director of international trade for the state of Texas Department of Commerce, establishing a structure of Texas-Mexico commissions on bi-state issues, a project to help Texas firms sell inputs to maquiladoras in Mexico, and a network of local export-assistance centers for small businesses.

She holds a Bachelor's degree in political science from the University of California at Berkeley, and a Master's degree from Brown University in political science, specializing in state level economic development and international trade.

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The North American Free Trade Agreement: Fulfilling Its Promise

Statement by

Edith R. Wilson

**Trade Project Director, Democratic Leadership Council
Senior Fellow, Progressive Policy Institute**

**Subcommittee on Trade
House Committee on Ways and Means**

**September 11, 1997
Washington, DC**

Introduction

Mr. Chairman, support for trade liberalization, like other aspects of American foreign affairs, has usually been handled on a bipartisan basis, as it should be. We hope this tradition continues as Congress considers fast track negotiating legislation this fall, and that the new 'vital center' of American politics will hold. I am here on behalf of the Democratic Leadership Council, which endorsed NAFTA three years ago, to explain why we did so and why Americans should be proud of President Clinton's historic achievement in expanding ties to our neighbors in North America.

By explaining why we believe, based on the evidence to date, that NAFTA has been good for ordinary Americans and serves the national interest, we hope also to demonstrate why we support further trade expansion. We believe a successful trade policy recognizes three core components: the significance of international trade to domestic growth; the importance of leadership in trade to America's international leadership overall; and the need to help American workers adjust and compete to changing economic conditions. Trade currently represents one third of America's economic growth.¹ Maintaining growth in trade is critical to sustaining our robust growth overall, and particularly important to maintaining a resurgence in manufacturing jobs.² That, in a nutshell, is why Americans cannot be pro-growth without being pro-trade. Trade is critical to the new economy.

Our goal in expanding trade should be a more dynamic and compassionate economy in which companies, workers, and government share responsibility for helping working Americans adapt to the changing economy. The burdens of change must not fall solely on the shoulders of working Americans. Government, business, and other institutions share responsibility for the security of

¹Trade, as a percentage of Gross Domestic Product, is approximately 14 percent when counting only exports.

²Bergsten, C. Fred, Director of the Institute For International Economics. Testimony before the Senate Finance Committee (June 1997).

those few who might be left behind. We will be looking to new models, such as business and jobs consortia, to help workers and companies to succeed and share in the benefits of expanded trade, and thus "expand the winner's circle."

Assessing NAFTA Three Years Out

Today the Progressive Policy Institute is releasing a study, *The NAFTA Success Story: More than Just Trade*, by Rebecca Reynolds Bannister, a former trade official. I draw substantially on that research in making my own analysis.

One point must be clarified at the beginning. Contrary to popular impression, NAFTA has not yet been fully implemented. While many NAFTA provisions went into effect immediately in 1993, others phase in over five, ten, and even fifteen years for the most sensitive sectors. This was intended to permit the workers and industries of all three countries ample time to adjust. At this point, no NAFTA study can adequately measure the agreement's full results because much of NAFTA's impact still lies ahead. The benefits to the United States will improve as implementation continues, and as NAFTA provides the conditions for increased economic growth in Mexico and Canada.

Nonetheless, the 1997 congressionally-mandated assessment of NAFTA by the Administration released this July is useful and timely. It provides Congress with a snapshot of this work in progress and allows it to determine if anything is dramatically wrong. Most importantly, the Clinton Administration report and hearings such as this provide an excellent opportunity to examine the facts.

NAFTA Lessons and Results

There are three main lessons to be learned from the NAFTA experience to date. *First*, the United States can liberalize trade with developing countries, if the agreements go beyond reducing tariffs on merchandise trade and cover other essential aspects of a sound and fair trading relationship. Longer phase-in periods are also necessary in such cases. This is critical information for the future, since the fastest growing markets lie in developing countries. *Second*, trade does follow trade agreements, and dramatic increases in trade are possible from agreements committed to lowering barriers on both sides. *Third*, lowering trade barriers between neighboring countries—those who can through proximity and familiarity easily, quickly, and at lower cost become better customers and partners—is one of the most effective ways to increase trade rapidly.

We have learned from the Clinton Administration report and the Progressive Policy Institute examination that NAFTA is fulfilling its promise. Our trade relations, the benefits to our consumers, the competitiveness of our workers, and the security of our investments are stronger for having concluded NAFTA. It helped increase trade and investment in North America. It put in place rigorous rules for governing trade, setting a higher standard than previous agreements. Institutions, working groups, and mechanisms that NAFTA created have smoothed the path to allow North

American businesses to trade, invest, and position themselves for better productivity and comparative advantage, making our economies stronger against shocks such as Mexico's 1994-95 crisis.

This summer, North America was ranked as one of the world's fastest growing regions, with growth projected at 3.5 percent, compared to the average 2.7 percent growth rate for the rest of the industrialized nations. Not only is there strong economic growth in all three countries, but Mexico's economic growth has been particularly impressive this year, with 8.8 percent GDP growth in the third quarter of 1997 and a projected aggregate rate of between 5 and 6 percent GDP growth.³ Canadian GDP growth for this year is projected at 3.3 percent. In 1996, nearly one-third of U.S. trade in goods was with Canada and Mexico (\$421 billion). When our two top customers grow, we grow, and vice versa: our NAFTA partners accounted for 53 percent of the growth in total U.S. exports in the first four months of 1997. Trade is not a zero-sum proposition, as some would suggest.

Despite dire predictions, NAFTA to date has not produced a flight of U.S. investment or jobs. The U. S. economy now creates in approximately *one month* the total number of jobs lost due to NAFTA in *three years*. Today we find that despite NAFTA's reduced tariff barriers and an economic crisis in Mexico in 1995 that lowered the value of the peso and made Mexican labor comparatively even cheaper, the United States has not lost even a small fraction (1/40th) of the 6 million jobs that Ross Perot predicted. In fact, under President Clinton's leadership, the U.S. economy has created 8.6 million jobs since NAFTA's inception. NAFTA's impact on jobs in the U.S. economy has been negligible in most sectors with positive job growth in others. Quite simply, neither NAFTA nor GATT nor any of our other lesser trade agreement has hurt the U.S. economy. Instead, they have been a vital component in our economic growth by opening new markets and eliminating barriers.

But when we look at the agreement's results, we are continually reminded that NAFTA was about more than trade. It was a pathbreaking, comprehensive trade and investment accord that "locked in" not only a steadily decreasing tariff rate on almost all products but also significant market reforms, as well as dispute settlement and investment guarantee procedures. It has increased certainty and stability in our commercial relations with our two top customers. No less than fifteen non-tariff accomplishments of the agreement are truly significant, covering areas such as inputs, transparency, services, investment, conflict resolution/protections, and environment⁴. These features of NAFTA don't just safeguard U.S. businesses; they protect the technology, processes, and markets that provide employment for our workers, too.

So, what do we find when we look at this section of the agreement four years later? Trade and investment disputes are now being handled with relative transparency and according to the established procedures agreed to in NAFTA. The agreement was, in particular, a step forward in

³"Mexican Growth Is Fastest in 16 Years As GDP in Second Quarter Soared to 8.8 percent," *The New York Times* (August 19, 1997).

⁴Bannister, Rebecca Reynolds, *The NAFTA Success Story: More Than Just Trade*, (Washington, DC: The Progressive Policy Institute, DC, September 1997).

enhancing the ability of small businesses to participate in international trade. Under NAFTA, small businesses as well as large firms have been given secure market access as well as methods for resolving commercial disputes in a developing country market. No other agreements do this. When the scope of the agreement is considered as well as the vast amounts of trade and investment flows covered under NAFTA's legal boundaries, the number of disputes since 1993 has been surprisingly low. Congress should consider this lack of conflict as a particular endorsement of how well the agreement is working.

States and Sectors: Michigan and South Carolina

Nearly all states have posted gains in exports with Mexico since NAFTA. Key industries such as autos, electronics, and the service sector have benefitted from NAFTA's provisions -- despite Mexico's economic crisis of 1994-95. Let us examine for a moment two states that were particularly concerned about negative impacts when NAFTA was signed: Michigan and South Carolina. Both are excellent examples of how states and sectors have benefitted generally from increased trade and specifically from the terms of NAFTA.

As overall unemployment and inflation have fallen to their lowest levels since the 1960s, Michigan's economy has prospered. Michigan's unemployment is at its lowest level in nearly 30 years. Michigan's unemployment rate has fallen from 6.8 percent in November 1993, to 4.4 percent in April 1997, since the passage of NAFTA. Michigan's export growth has increased 68 percent between 1992 and 1996, making it the fourth largest state exporter of goods. Michigan's export-related jobs—which pay, on average, 13 to 16 percent more than non-export related jobs—increased by an estimated 40 percent, or 147, 883 jobs, since 1992.

Michigan's exports to NAFTA countries increased by 40 percent between 1993 and 1996. During 1996, Canada was Michigan's largest export market and Mexico was its second largest. Between 1993 and 1996, Michigan's exports to Canada rose by 56 percent. During this same period, Michigan's exports to Mexico declined by 2 percent, due to the deepest but shortest lived recession in Mexico in 50 years. Transportation equipment accounted for 63 percent of Michigan's total exports.

Some U.S. sectors—such as the automotive industry—have experienced large net import and export growth as well as job growth. U.S. employment in the automotive industry grew by 14 percent between 1993 and 1996, including a 10.6 percent increase in employment in automotive assembly. This job growth was accompanied by a 5.6 percent increase in hourly earnings for automotive production workers. While U.S. imports of Mexican automotive vehicles and parts nearly doubled, thanks to NAFTA provisions, those imported vehicles now include a high percentage of components made in the United States. In fact, U.S. exports to Mexico of automotive vehicles and parts increased 11 percent, from \$7.5 billion in 1993 to \$8.4 billion in 1996. These positive developments in the automotive sector have certainly helped the state of Michigan, which is the leading manufacturer of

automobiles in the United States.⁵

In South Carolina, unemployment in 1993 stood at 7.6 percent. In April, 1997, it was 4.6 percent, a decline of 2.9 percent. In this state, we find that record levels of foreign investment have supported 21,000 additional high-paying, high-skilled jobs since 1992. During 1995, Canada was South Carolina's largest export market, while Mexico was South Carolina's second largest export market. Since 1993, exports to Canada have increased by 23 percent, from \$1.3 billion in 1993 to \$1.7 billion in 1997. South Carolina's exports to Mexico have increased by 58 percent, from \$300.3 million in 1993 to \$719.0 million in 1995.

Moreover, South Carolina's textile industry illustrates the benefits of integration under NAFTA. Textile and apparel goods production have shifted from the Far East to North America. South Carolina's textile exports to Mexico increased 143 percent, 1993 to 1995, and textile imports to Canada have increased 40.2 percent between 1993 and 1996. Due to NAFTA requirements, Mexican-made apparel and footwear exported to the United States have higher U.S. content, on average, than imports of these products from Asia and other countries. With Mexican plants now purchasing large amounts of U.S. components, U.S. firms are increasing profits and efficiencies. After years of decline, the textile and apparel industries are thriving on the challenges presented by the global economy. Now highly automated and requiring skilled workers, South Carolina's textile industry accounts for 10 percent of the state's total exports (\$388.9 million) and employs 22 percent of its workforce.⁶

Similar success stories are found in every state and in sectors such as in computers and electronic machinery and related software, government procurement, and agriculture. In all these critical areas, NAFTA has not only expanded markets for U.S. goods, but has helped position U.S. industries for future competitiveness by strengthening our productive capacity on the North American continent, and allowing the three NAFTA partners to benefit from their comparative advantages

Economic Reform and Political Reform

NAFTA has been accompanied by other positive trends. This summer, Mexican democracy took a large, peaceful step forward as voters in state and local elections redistributed power among the three political parties. The PRI, after having been in power for over 60 years, no longer has a majority in the Mexican Congress. Mexican labor unions have moved toward independence from government

⁵All data on the state of Michigan is from the following sources: BLS, USTR (based on data from the Massachusetts Institute of Social and Economic Research), ITC, and U.S. Department of Commerce.

⁶All data on the state of South Carolina is from the following sources: USTR (based on data from the Mass. Institute of Social and Economic Research), U.S. Department of Commerce, U.S. Department of Agriculture, South Carolina Department of Commerce, and *Study on the Operation and Effects of the NAFTA*, Executive Office of the President, July 1997.

control, and are becoming more vocal on behalf of their members.⁷ These changes make the obvious point: economic reforms symbolized by NAFTA have been accompanied by a process of significant political reform in Mexico.

There is much discussion about how and whether free trade encourages the growth of democracy. In NAFTA, we find a very specific example of how this process works. Through the vehicle of trade liberalization and for sound commercial reasons, NAFTA has introduced to Mexico principles of transparency, the right to appeal government decisions, public access to information, and other processes that are the foundations of open, pluralistic and democratic societies. Two examples: The Mexican government must now publish every federal regulation for review and comment, and an open bidding process is required for government procurement. These are dramatic changes from prior practices. As a result, Mexicans expect increased openness in other areas as well. Finally, to demonstrate how NAFTA has already served as a template for other trade agreements, many of these same provisions have been incorporated by Mexico into recent free trade agreements with Central and South American countries.

Should NAFTA Be Expanded?

The fundamental conclusion we should draw from NAFTA is clear: The prospect of increased trade *without* the kinds of guidelines, safeguards, and predictability epitomized in NAFTA should be far more alarming to the American people than the proposal to initiate new trade negotiations. If we can negotiate similar comprehensive agreements with other countries, it is in our interest as the world's leading exporter to pursue them expeditiously.

We need to extend the *principles* embodied in NAFTA to the rest of the hemisphere soon because we have much to gain from increased trade and investment with Latin America, one of the fastest growing regions in the world. How is this to be accomplished? NAFTA contains a "docking" or accession clause that would allow other countries to sign on to its provisions. Since NAFTA went into effect, however, a number of other developments have occurred in our hemispheric trading environment. It behooves the United States to ensure that any future trade agreements meet the standards included in NAFTA. They should also cover current conditions with the proposed trading partner(s) and anticipate future needs. The founding principles and comprehensive approach epitomized by NAFTA should be used in the basic hemispheric agreements. But it is increasingly clear that future agreements—with Chile and Latin America, among others—may be able to raise the bar even higher than NAFTA. Fresh negotiations may be in order and expanding NAFTA in the literal sense may not be the most productive or appropriate approach at this point.

Expanding the Winner's Circle at Home

The American public is right to feel that there is some unfinished business from NAFTA, GATT, and other developments that have changed our economy. Trade, of course, is not the only factor

⁷"Mexico's Unions Form New Coalition," *Journal of Commerce* (August 26, 1997), p.5A.

responsible for these changes; actually, technology accounts for more of the economic restructuring we are experiencing.

As our stake in the new global economy increases, so does our responsibility to ensure that all Americans have the opportunity to compete effectively. Our efforts to accommodate technological progress and trade expansion for the sake of economic growth must go hand-in-hand with a new social compact that offers all U.S. workers lifelong access to career training; provides more effective public support for workers in transition; equips them with the tools to manage their career security by controlling their own health and pension resources; and redefines corporate responsibility in a world of borderless markets.⁸ We must expand the winner's circle through shared responsibility by government, business, and workers for those Americans who may be left behind in the New Economy.

In the same session of Congress that passed the NAFTA implementing legislation, Congress and the Administration were unable to agree on any major proposals to modernize our nation's job placement and worker training systems. A NAFTA trade adjustment assistance program was established but with limited scope and effectiveness. As a consequence, many Americans feel that their needs have been ignored. The United States needs to do better. We must substantially improve our efforts to equip all Americans with the education and skills they need to be as competitive as individual citizens as we now are as a nation, and we must extend a helping hand at key moments. Congress has recently made progress in areas such as health care and pension portability. Now that the budget is balanced, we must turn our attention to the rest of this domestic agenda. In particular, we hope Congress will consider the G.I. Bill for Workers and consider replacing outdated adjustment assistance with comprehensive training programs available through individual vouchers.

Maintaining U.S. Momentum and Leadership in Trade

In closing, I would like to add one word about the debate over fast track authority. It can be hard to distinguish between the genuine and the disingenuous in concerns raised first about NAFTA and now about fast track authority. This is because protectionism mutates in every generation and finds new, socially acceptable ways to hinder trade. Special interests work to protect their gains even if at cost to the national interest. Again, many concerns about issues such as labor rights and environmental protection are utterly sincere. Indeed, we share them.

But it is simply unfair to use such concerns or other means to elevate the interests of industries or groups that seek protection from international competition above the interests of workers in exporting industries, of consumers, of communities that benefit from foreign investment, and of every American who benefits from steady growth, low unemployment, and low inflation.

⁸Rodrik, Dani, *Has Globalization Gone Too Far?*, Institute For International Economics (Washington, DC, March 1997); I.M. Destler, *Renewing Fast-Track Legislation*, Institute For International Economics (Washington, DC, September 1997), p.47; and "Expanding the Winner's Circle," *Fact Sheet*, (Democratic Leadership Council, Washington, DC), July 1997.

There are many approaches to industrial relations, labor rights, pollution prevention, and conservation that can be pursued productively, particularly through international cooperation. There are connections between trade liberalization and these same issues, but they must be explored cautiously.

Further delay in fast track renewal, with all that is ahead on the trade calendar, will be protectionism in a new and virulent form and could cost Americans dearly. In fact, legislative rejection of President Clinton's request for fast track authority this fall would send a message around the world that America has abdicated international economic leadership—and damage our political leadership as well.

The United States must move forward to lead the world in a new era of open and fair trade. At the global, sectoral, and regional level, many of our key trading partners are about to move ahead without us in critical new trade negotiations. Congress should give President Clinton the same broad authority to negotiate new trade agreements under fast track procedures that every U.S. President since Gerald Ford has received.

Renewed negotiating authority is as vital to U.S. leadership in world affairs as it is to sustaining our economic growth. The message about fast track is clear: If America can't negotiate, Americans lose.

Thank you.

For further information about the Democratic Leadership Council or DLC publications, please call or write:

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FOR IMMEDIATE RELEASE:
THURSDAY, SEPTEMBER 11, 1997

CONTACT: Chip Azano
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PPI RELEASES NEW REPORT ON THE SUCCESS OF NAFTA

WASHINGTON, D.C. – The success of the North American Free Trade Agreement, now three years into its 15 year implementation schedule, can be seen not only in the positive economic returns, but also in the important precedent it has established for advancing U.S. interests in trade agreements, according a new report from the Progressive Policy Institute.

The report, entitled *The NAFTA Success Story: More than Just Trade*, comes as Congress turns its attention to trade issues by taking up President Clinton's request for fast-track trade negotiating authority. The report's author, Rebecca Reynolds Bannister, a fellow at the Progressive Policy Institute and director of the Latin America Data Base at the University of New Mexico, demonstrates how NAFTA, while a modest economic success, has met or exceeded its other wide-ranging goals.

"NAFTA is an important and solid agreement [that] protects the interests of U.S. employers and investors and those of our trading partners," Bannister writes. Pointing specifically to the boundaries it establishes for behavior in the global market and the rigorous rules it sets for governing trade -- standards higher than in any previous agreements -- she says, NAFTA should serve as a template for extending these principles to other key markets. "These features of NAFTA don't just safeguard U.S. businesses; they protect the innovation of American workers, processes and markets that provide employment for our workers."

As an added benefit, she writes, "NAFTA has introduced to Mexico important principles of transparency, the right to appeal government decisions, public access to information (about trade, labor, the environment), and a number of other issues that make up the foundation of an open, pluralistic, and democratic society."

"It is clear to objective observers that NAFTA is working," Bannister writes. As evidence, she points to these facts:

- * Trade and investment throughout North America have increased.
- * North America's economic growth as a region is projected at 3.5 percent in 1997, compared to the average 2.7 percent growth rate for the rest of industrialized nations.
- * U.S. exports to Mexico and Canada are at record levels (\$191 billion in 1996).
- * Canada and Mexico are the top export markets for the United States.

—more—

- * Trade and investment disputes are handled with relative transparency and according to established procedures agreed to in NAFTA.
- * Small businesses as well as large firms have been given secure market access as well as methods for resolving commercial disputes under NAFTA.
- * NAFTA to date has not produced a flight of investment or jobs; in fact, the United States economy now creates in approximately one month the total number of jobs lost due to NAFTA in three years.

Additionally, Bannister notes that NAFTA has been accompanied by other positive non-economic trends: Mexican democracy took a large, peaceful step forward as voters in state and local elections redistributed power among the three leading political parties; the PRI, the political party with a monopoly on power for over 60 years, no longer controls a majority in the Mexican Congress; an opposition leader was elected mayor in Mexico City; and Mexico labor relations reached a watershed as union leadership has moved toward a new independence from government control.

"These changes make the obvious point: economic reforms symbolized by NAFTA have indeed been accompanied by a process of significant political reform in Mexico. It is fair to argue that the transparency and openness to outside scrutiny and influence that came with NAFTA contributed to the political opening."

The report calls for congressional approval for federal funding for improved trade data so that the anecdotal success and horror stories that pervade the discussion of trade today will be replaced by improved employment statistics for traders on a state and sectoral level.

Finally, the report addresses the widespread apprehension regarding employment security that exists in the U.S., despite record employment levels and low inflation. The Progressive Policy Institute has long advocated increased public investment in human capital and proposed innovative solutions to the education and training needs of American workers. The report recommends that individuals be given the power to control their own employment destinies with voucher-supported training and more meaningful adjustment assistance.

The report, which also contains specific information on the automobile, computers and software, textile and apparel, government procurement, agricultural, and services sectors, is available on the DLC web page at <http://www.dlcpqi.org>, or by calling the PPI press office at (202) 547-0001.

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September 2, 1997
1:00 p.m.

DRAFT

FAST TRACK "SUCCESS" STORIES

There is greater utility in using small business to showcase the impact that international trade is having on the U.S. economy during the President's Fast Track roll out event, rather than using blue chip corporations, as the American public is aware that multi-national firms are benefiting from international trade. By contrast, Americans are not knowledgeable about either the extent of small business involvement in exports (over 90 percent of U.S. firms exporting overseas are small businesses), or about Fast Track and what it means (could mean) for their firms directly (reduced tariffs) or indirectly (improved legal and regulatory environment). Included in the success stories are examples of small business exporters that would help broaden the stakeholders involved in the Fast Track debate, by reminding small business owners that they could compete in overseas markets just like those found in the success stories and that Fast Track will enhance their opportunities to enter into/expand in foreign markets by leveling the playing field vis-a-vis foreign competitors. Their exports overseas will help grow the U.S. economy.

The Rewards of Engagement:

Agriculture:

Contact: Scott Schearer, Director of National Relations
Farmland Industries, Inc.
Kansas City, Missouri
(202) 783-5330

- ▶ Farmland Industries, Inc., headquartered in Kansas City, Missouri, is the largest farmer-owned cooperative in North America serving 500,000 farmer-rancher families through over 1,500 local cooperative members in 22 Midwestern States, Mexico and Canada. Also, more than 13,000 livestock producers are direct members of Farmland, marketing their hogs and cattle. U.S. producers now depend on exports for over 25 percent of gross receipts, which are anticipated to increase to 35 percent by 2003. In the past six years, these cooperatives have seen their international sales grow from less than \$200 million to over \$4.1 billion. In Mexico alone, since the passage of NAFTA, their sales have increased from less than \$50 million in 1992 to \$450 million in 1996.
(Source: USDA)

Small Businesses:

Contact: David Scheuermann, Jr., Owner
Deep South Bowling Pro Shop, Inc.
Kenner, Louisiana
(504) 467-0248

- ▶ A husband and wife owned and operated business created in 1992, has experienced a dramatic increase in its sales of bowling balls since entering the export market in 1995. Overseas shipments grew from \$75,000 in 1995 to about \$850,000 in 1996 to its primarily Asian and South American markets. Seven months into 1997, it is on the brink of surpassing its 1996 exports (comprising 30 percent of total revenues) while entering five new international markets. Export sales allows Deep South to order bowling balls at the most competitive prices from manufacturers. At the start of the business, the couples dining room substituted as the warehouse for the bowling balls. Today, Deep South has a 12,000 square feet warehouse and is about to expand to a larger warehouse.
(Source: Department of Commerce)

Contact: Bernard Glas and Stan Popeil, Co-owners
B.G. Imaging Specialities
Bronx, New York
(718) 378-3100

- ▶ B.G. Imaging Specialities is an exporter of used diagnostic imaging equipment to under-developed countries throughout the world that do not have the technology to produce such equipment and whose medical institutions do not have the capital to purchase new models of such equipment. In business since 1986 and operating with 25 employees, B.G. has doubled its revenue from exports and the number of employees in the last 4 years. In 1993, it undertook a major effort to expand its marketing activities (primarily in China up to that point) to other emerging economies, including: Russia, other newly independent states (former Soviet Union), India, Ireland and Latin America. Its revenue from exports has grown to about 90 percent of total sales and amounted to over \$3 million in export sales in 1996.
(Source: SBA)

Hi-Tech:

Contact: Tom Ory, President
Daedulus Enterprises, Inc.
Ann Arbor, Michigan
(313) 769-5649

- ▶ Daedulus Enterprises, Inc. is a manufacturer of highly specialized remote sensing systems worldwide. In business for 30 years, it has tapped a global demand for its product in uses as varied as waterborne pollution sensing to drug interdiction efforts. Its exports sales range between 50 percent and 66 percent of total sales annually and directly support five-to-ten employees (out of a total of 17 employees). Daedulus earned over \$1.2 million in revenue from exports in 1996 and \$1.4 million this year.
(Source: Department of Commerce)

The Risk of Inaction:

The risk of inaction is quite great given the pace at which countries continue to sign trade agreements further liberalizing their markets by tearing down tariffs and non-tariff barriers, thereby increasing market access with trading partners.

Manufacturing:

Contact: Donald Bohach, Director of Marketing and Business Affairs
Stupp Corporation
Baton Rouge, Louisiana
504) 778-2203 or 2-(800) 535-9999)

- ▶ The Stupp Corporation, a leading producer in the Western Hemisphere of API line pipe, is confronted with a price hurdle when doing business in South America that its competitors from countries in the southern cone common market (MERCOSUR: Brazil, Argentina, Uruguay and Paraguay) do not face having signed trade agreements between themselves and with Chile. These trade agreements significantly reduce duties and taxes on products exported between them. For example, in bidding to supply \$100 million of pipe to an Argentina-Chile gas pipeline project, Stupp faces duties and taxes of 27 percent on the Argentine portion of the pipeline. These are costs that a major competitor from Chile does not have to pay. For corporations like Stupp and its workers, including the steelworkers, dock workers, railroad employees, stevedores and truck drivers, the stakes are quite high in winning these major infrastructure projects. Stupp estimates a successful bid would:
 - require the equivalent to two days of U.S. Steel's total shipments or twice that at a company the size of LTV;
 - employ over 1,600 rail cars to ship the steel to their plant; or alternatively, 67 barges and 1,904 trucks;
 - provide more than two months of work for a U.S. facility to coat the bare pipe.(Source: Department of Commerce).