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THE WALL STREET JOURNAL
FRIDAY, JUNE 20, 1997

In the Debate About Nafta, Just the Facts Please

The Americas

By Sidney Weintraub

The North American Free Trade Agreement has passed its third anniversary and so, according to its original enabling legislation, the Clinton administration must deliver a status report to Congress by July 1. The sensational trashing of Nafta by its opponents has not let up during its first three years and this mandatory report will bring the effects of Nafta back under the spotlight of domestic politics.

With the potential for an expanded Nafta still alive, the report is also likely to be used in the continuing debate on free trade. Here's a look at some of the most common concerns that the report is likely to address and a look at the facts.

Argument. Nafta has led to a loss of hundreds of thousands of jobs because businesses preferred to shift labor costs to Mexico where workers can be paid less.

Facts. The U.S. has created more than two and a half million jobs a year since Nafta has been in effect and current U.S. unemployment, at 4.9%, is full employment by any reasonable calculation. The U.S. economy as a whole can't be losing jobs if it is at full employment.

Argument. OK, but the new U.S. jobs are menial, poorly paying jobs.

Facts. To cite the 1997 report of the Council of Economic Advisors: "Most of the new positions created in the 1990s are good jobs," by which they mean jobs in manufacturing and higher paying services, not just hamburger flipping. Protectionists generally fail to point out that salaries in export industries pay some 13% more than those in manufacturing generally.

Argument. When jobs are lost, individuals and families have little to fall back on because of the "inadequacy of adjustment assistance"—retraining and financial help in seeking new employment—provided in the Nafta legislation.

Facts. In the entire period of Nafta's existence, the Department of Labor has certified some 125,000 people as being adversely affected by U.S. investment in, and imports from, Canada and Mexico. This number is about equal to the number of new jobs created in the U.S. every two weeks. About 10,000 of those who were certified took advantage of the benefits in the Nafta legislation.

Argument. It is undeniable that the U.S. bilateral trade deficit with Mexico last year was $15 billion.

Facts. The significance of the argument is unclear. Mexico, in 1995, went through a deep depression. Gross domestic product fell by almost 7% and, under these circumstances, its imports inevitably declined and its exports increased because the domestic market collapsed. The single most important determinant of the annual trade balance between Mexico and the U.S. is the relative state of the two economies. This is evident in the accompanying graph, which shows how closely U.S. exports to Mexico track that country's economic growth: U.S. exports to Mexico started their upward movement again in 1996 when the Mexican economy resumed its growth. This year, Mexico is likely to become the second largest U.S. export market, after Canada, overtaking Japan.

Argument. But the extra imports from Mexico must have led to a loss of U.S. jobs.

Facts. How could they, if the U.S. was at full employment? What the extra imports did was increase the choice for U.S. consumers and producers.

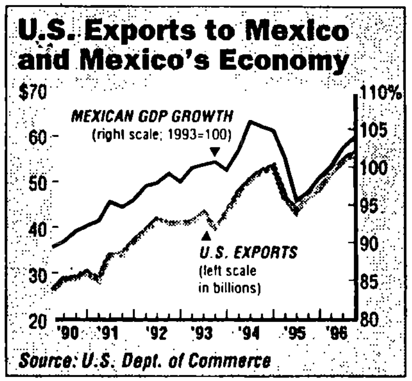
Argument. The Mexican economy collapsed in 1995 because of Nafta.

Facts. Mexico's economy was done in by a combination of two main developments: a series of political tragedies, including the assassination of the main presidential candidate, and a mismanaged monetary policy. Nafta contains nothing in its text about exchange-rate issues.

Argument. Mexico deliberately rigged its industrial policy to attract foreign investment in order to become a platform for export to the U.S.

Facts. Had Mexico wished to be a platform for shipment to the U.S., it would have undervalued the peso to stimulate exports. It did the opposite because priority was given to reducing inflation.

Argument. When Mexico realized that its exchange rate was overvalued, it rigged a devaluation in order to stimulate exports.



Facts. It is outrageous to assert that the Mexican authorities deliberately put the country through its worst economic tragedy since the Great Depression, and in the process ended the political monopoly of the ruling party, in order to arrange a temporary improvement in its trade balance with the U.S.

Argument. Real wages in Mexico have declined because export expansion demands this outcome.

Facts. Mexico's real wages did decline in 1995 because it went through a catastrophic year economically. Unemployment also rose. Mexico's economy grew by more than 5% in 1996 and employment and wages also rose. The economy continues to expand in 1997.

Argument. Nafta limited Mexico's eco nomic options in 1995, thereby making th depression worse than it otherwise woul have been.

Facts. Nafta did require that Mexi deal with its problems by overall macr economic measures and not by restri tions on imports from the U.S. The resu was recovery in a single year, compare with the four years it took after the ec nomic downturn in 1982, when the mai medicine was import restrictions and ca ital controls.

Argument. The U.S. had to lend Mexi $20 billion at the beginning of 1995 to re cue the peso.

Facts. Yes, it did, and other lines credit coming to a potential total of mo than $50 billion were authorized. Ear this year, Mexico repaid, with interes all the money it drew down under t U.S. line of credit, and is on schedule repayments of other credits. Most of t potential $50 billion never was used. Me ico was able to borrow in world mon markets within six months of its collap in early 1995, whereas it took more th six years after 1982 when the recove policy was based on import and capit restrictions.

Argument. Whatever its economic po cies, Mexico is not a democracy and t U.S. therefore should not participate with in a comprehensive free-trade agreemen

Facts. This argument comes at pr cisely the moment that Mexico is movi to legitimate democracy under which o position parties regularly win electio and may take over the government Mexico City, the largest jurisdiction the country, in July. A more open Mex can economy has helped open its politic system.

Mr. Weintraub is an economist at t Center for Strategic and International Stu ies in Washington, D.C.

EXECUTIVE SUMMARY

PURPOSE OF THE REPORT

The North American Free Trade Agreement (NAFTA) entered into force on January 1, 1994. In accordance with Section 512 of the NAFTA Implementation Act, this Study provides a comprehensive assessment of the operation and effects of the NAFTA, including the economic effects in aggregate and in selected manufacturing sectors and agriculture, and the implementation of the NAFTA environmental and labor agreements. This Study reviews the findings from a variety of outside studies and analyzes Mexican and U.S. data, attempting wherever possible to isolate the effects of the NAFTA from other factors, as stipulated in the statute.

TRADE IN NORTH AMERICA

U.S. trade with Canada and Mexico is much larger relative to the size of these economies than with any other trading partners, in large part reflecting shared land borders and geographical proximity.

- In 1996, nearly one-third of U.S. two-way trade in goods with the world was with Canada and Mexico ($421 billion). Two-way trade with our NAFTA partners has grown 44 percent since the NAFTA was signed, compared with 33 percent for the rest of the world. Mexico and Canada accounted for 53 percent of the growth in total U.S. exports in the first four months of 1997.

- Canada was in 1993 -- and remains today -- our largest trading partner, accounting for $290 billion in two-way trade in 1996. Between 1993 and 1996, U.S. goods exports to Canada were up by 33.6 percent to $134.2 billion.

- U.S. exports to Mexico grew by 36.5 percent (or $15.2 billion) from 1993 to a record high in 1996, despite a 3.3 percent contraction in Mexican domestic demand over the same period.

- Exports to Canada and Mexico supported an estimated 2.3 million jobs in 1996; this represents an increase of 311,000 jobs since 1993, 189,000 supported by exports to Canada and 122,000 by exports to Mexico.

OPERATION AND EFFECT OF THE NAFTA

- Exports to Mexico were up by 54.5 percent in the first four months of 1997 relative to the same period in 1993. In the first four months of 1997, U.S. exports to Mexico virtually equalled U.S. exports to Japan, our second largest market -- even though Mexico's economy is one twelfth the size of Japan's

NAFTA'S EFFECT ON TRADE BARRIERS

Under NAFTA, Mexico has reduced its trade barriers on U.S. exports significantly and dismantled a variety of protectionist rules and regulations, while the United States -- which started with much lower tariffs -- has made only slight reductions.

- Before NAFTA was signed, Mexican applied tariffs on U.S. goods averaged 10 percent. U.S. tariffs on Mexican imports averaged 2.07 percent, and over half of Mexican imports entered the United States duty-free. (Figure 1.)
- Since NAFTA was signed, Mexico has reduced its average applied tariffs on U.S. imports by 7.1 percentage points, compared with a reduction of 1.4 percentage points in the United States. The United States would have made some of these tariff reductions under the Uruguay Round even in the absence of NAFTA.

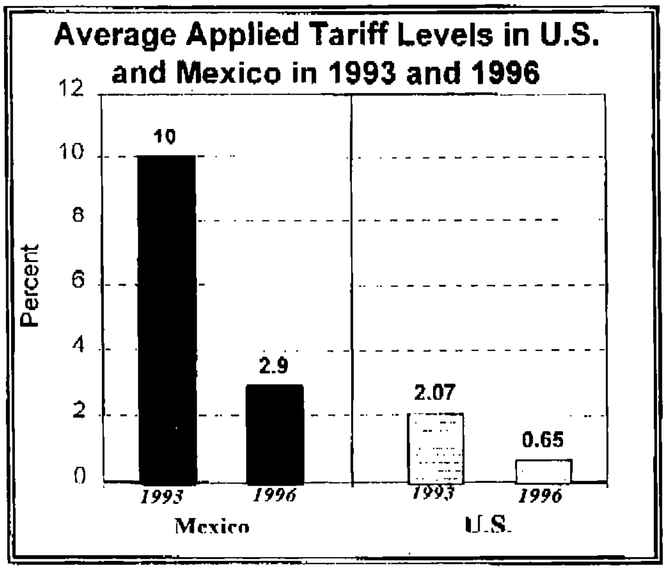


Figure 1

NAFTA'S EFFECTS ON THE U.S. ECONOMY

Several studies conclude that NAFTA contributed to America's economic expansion. NAFTA had a modest positive effect on U.S. net exports, income, investment and jobs supported by exports.

- It is challenging to isolate NAFTA's effects on the U.S. economy, since NAFTA has only been in effect for three years, and events such as the severe recession in Mexico, the depreciation of the Mexican peso, and U.S. tariff reductions under the Uruguay Round have taken place during the same period.

EXECUTIVE SUMMARY

- Nonetheless, several outside studies conclude that NAFTA has resulted in a modest increase in U.S. net exports, controlling for other factors. A new study by DRI estimates that NAFTA boosted real exports to Mexico by $12 billion in 1996, compared to a smaller real increase in imports of $5 billion, controlling for Mexico's financial crisis. An earlier study by the Dallas Federal Reserve finds that NAFTA raised exports by roughly $7 billion and imports by roughly $4 billion. The relatively greater effect on exports partly reflects the fact that under NAFTA Mexico reduced its tariffs roughly 5 times more than the United States.

- DRI estimates that NAFTA contributed $13 billion to U.S. real income and $5 billion to business investment in 1996, controlling for Mexico's financial crisis.

- These estimates suggest that NAFTA has boosted jobs associated with exports to Mexico between roughly 90,000 and 160,000. The Department of Commerce estimates that the jobs supported by exports generally pay 13 to 16 percent more than the national average for non-supervisory production positions.

NAFTA'S EFFECTS ON THE MEXICAN ECONOMY

In 1995, Mexico experienced its most severe economic recession since the 1930s. Comparing Mexico's recovery in 1996 with Mexico's recovery from its last financial crisis in 1982, when NAFTA was not in effect, reveals that both the Mexican economy and American exports recovered more rapidly following the 1995 crisis than the 1982 crisis, in part because of the economic reforms locked in by NAFTA. Mexico's strong economic adjustment program and bilateral and multilateral financial support were also important.

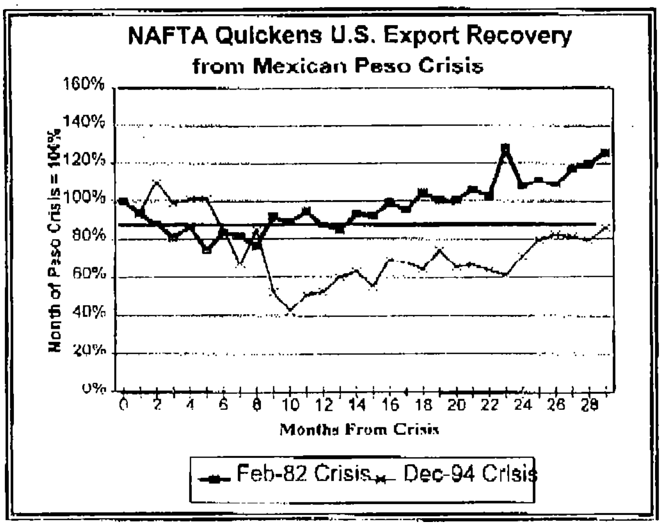


Figure 2

- Following Mexico's 1982 financial crisis, Mexican output drifted down for nearly two years before rising again and did not recover to pre-crisis levels for five years. Although Mexican economic output dropped more quickly in 1995, it also rebounded more quickly, reaching pre-crisis peaks by the end of 1996. Similarly, following the 1982 crisis, it took Mexico 7 years to return to international capital markets, while in 1995, it took 7 months.

- Following Mexico's 1982 financial crisis, Mexico raised tariffs by 100 percent, and

OPERATION AND EFFECT OF THE NAFTA

American exports to Mexico fell by half and did not recover for seven years. (Figure 2.) In 1995, Mexico continued to implement its NAFTA obligations even as it raised tariffs on imports from other countries. As a result, American exports recovered in 18 months and were up nearly 37 percent by the end of 1996 relative to pre-NAFTA levels, even though Mexican consumption was down 3.3 percent.

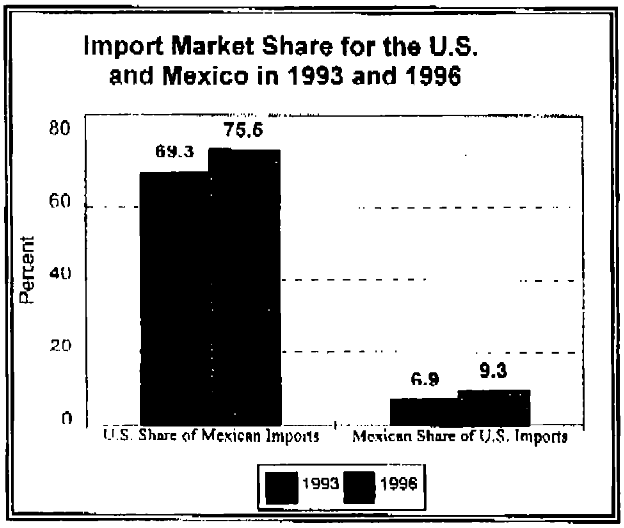


Figure 3

NAFTA'S EFFECTS IN KEY SECTORS

U.S. suppliers hold dominant shares of Mexico's import markets and in many sectors have expanded their shares significantly under NAFTA, at the expense of suppliers from other countries. In almost all sectors, Mexico has made large reductions in tariff barriers under NAFTA, compared with only slight U.S. reductions.

- Increases in the U.S. share of Mexico's import market are indicative of NAFTA's effects, since they control for factors that affect all foreign suppliers similarly, such as Mexico's recession. Since NAFTA went into effect, U.S. suppliers have seen their share of Mexico's import market grow from 69.3 percent to 75.5 percent, reflecting a 10 percentage point average tariff advantage over foreign suppliers. Mexico's share of American imports has risen from 6.9 percent to 9.3 percent. (Figure 3.)

- Reductions in Mexican barriers in key sectors have led to U.S. share gains in Mexican import markets. Since NAFTA was signed, the U.S. share of Mexican imports is up 17.2 percentage points to 86.4 percent in the textiles sector, where Mexico has cut tariffs by 10.7 percentage points under NAFTA. The U.S. share is up 19.2 percentage points to 83.1 percent in the transport equipment sector, where Mexico has cut tariffs 10.2 percentage points

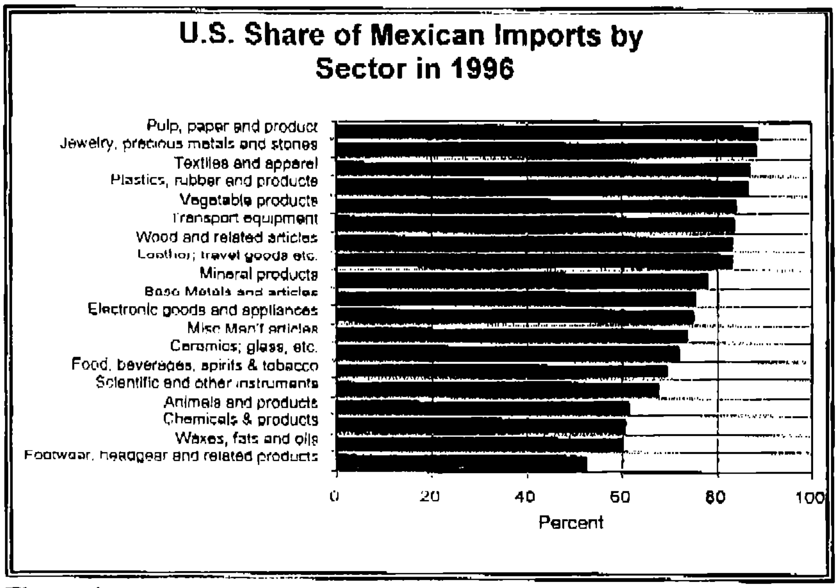


Figure 4

under NAFTA. And the U.S. share is up 5.7 percentage points to 74.3 percent in the electronic goods and appliances sector, where Mexico has cut tariffs by 9.0 percentage points under NAFTA.

- Under NAFTA, Mexican tariff reductions of 9.0 percentage points on electronic goods and appliances are more than 4 times greater than U.S. reductions; Mexican tariff reductions on transport equipment of 10.2 percentage points are more than 9 times greater than U.S. reductions;

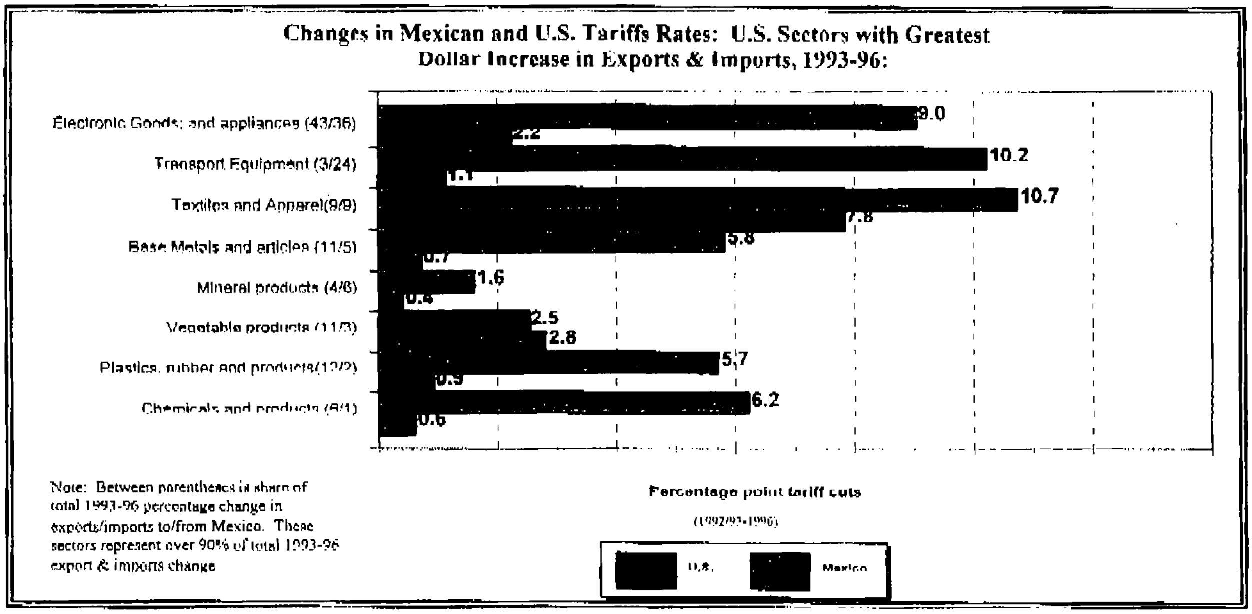


Figure 5

and Mexican tariff reductions of 6.2 percentage points in the chemicals industry are more than 10 times greater than U.S. reductions. (Figure 5.)

- Since NAFTA was signed, U.S. exports to Mexico have made significant gains in several sectors, despite the severe Mexican recession. However, analysis by the International Trade Commission (ITC) shows that data inadequacies at the sectoral level make it difficult to isolate the effects of NAFTA on absolute trade flows.

- In industries such as autos, chemicals, textiles and electronics, NAFTA is permitting American companies to achieve synergies across the North American market, improving their strategic positions abroad and contributing to strong growth in employment, production, and investment at home.

OPERATION AND EFFECT OF THE NAFTA

- In several industries that have experienced strong import growth from Mexico, Mexican imports have largely displaced imports from other regions, which have lower U.S. domestic content. In the apparel industry, the share of U.S. imports supplied by Mexico rose from 4.4 percent in 1993 to 9.6 percent in 1996, while the share of U.S. imports from China, Hong Kong, Taiwan and Korea fell from 39 percent in 1993 to 30 percent in 1996. (Figure 6.) Close to 2/3 of the value of Mexican apparel imports in 1996 was comprised of U.S. content.

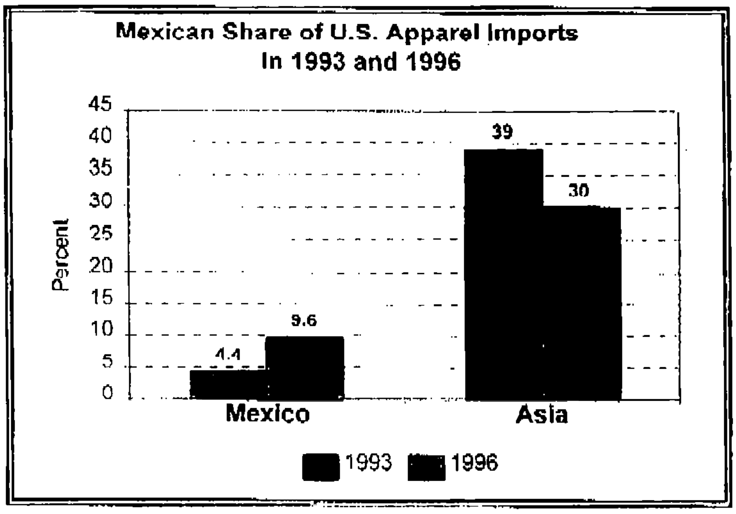


Figure 6

LABOR PROTECTION

The North American Agreement on Labor Cooperation (NAALC) established by the NAFTA has, for the first time, created North American cooperation on fundamental labor issues and has enhanced oversight and enforcement of labor laws.

- The NAALC submission process subjects member governments to public and international attention for alleged violations of labor laws. The submission process has resulted in such outcomes as recognition of a union previously denied recognition and permitting secret union ballots at two companies where union votes previously were not secret.
- Between 1993 and 1996, Mexico's Secretariat of Labor and Social Welfare increased funding for enforcement of labor laws by almost 250 percent.
- Mexico reports a 30 percent reduction in the number of workplace injuries and illnesses since the NAFTA was signed.
- Under the NAALC, the Canadian, Mexican, and U.S. governments have initiated cooperative efforts on a variety of labor issues, including occupational safety and health, employment and training, industrial relations, worker rights and child labor and gender issues.

EXECUTIVE SUMMARY

ENVIRONMENTAL PROTECTION

NAFTA includes mechanisms to address environmental problems that have long challenged communities along the 2000-mile shared border with Mexico. NAFTA's environmental agreements are also encouraging regional cooperation on broader environmental issues and improved enforcement of Mexican environmental laws.

- Environmental institutions established under NAFTA are certifying and financing infrastructure projects designed to improve the environment along the U.S.-Mexico border. To date, 16 projects have been certified with a combined cost of nearly $230 million. Construction has already begun on seven projects, including a water treatment facility in Brawley, California and a water supply project in Mercedes, Texas. The NADBank will be able to leverage its capital into $2 to $3 billion in lending.

- The NAFTA Commission for Environmental Cooperation (CEC) has strengthened trilateral cooperation on a broad range of environmental issues, including illegal trade in hazardous wastes, endangered wildlife, and the elimination of certain toxic chemicals and pesticides.

- Through the CEC, Mexico has agreed to join the United States and Canada in banning the pesticides DDT and chlordane, ensuring that these long-lived, toxic substances no longer cross our border.

- The United States and Mexico have launched a Border XXI program establishing five-year objectives for achieving a clean border environment and a blueprint for meeting these objectives. U.S. and Mexican officials are now working to abate emissions from vehicles at border crossings, tracking transboundary shipments of hazardous wastes, and operating a U.S.-Mexico Joint Response Team to minimize the risk of chemical accidents, to name just a few activities.

- Mexico has established a voluntary environmental auditing program, which has completed audits of 617 facilities to date. Of these, 404 have signed environmental compliance Action Plans representing more than $800 million in environmental investments in Mexico.

- Mexico reports a 72 percent reduction in serious environmental violations in the maquiladora industry since the NAFTA was signed, and a 43 percent increase in the number of maquiladora facilities in complete compliance.

The Washington Post
FRIDAY, JULY 11, 1997

White House Subdued On NAFTA's Impact

Report on Trade Accord Cites 'Modest' Results

By Paul Blustein
Washington Post Staff Writer

The Clinton administration, which once promoted the North American Free Trade Agreement as a major boon for American companies and workers, finds in a report to be released today that NAFTA has had a "modest positive effect" on the U.S. economy.

The report's language is markedly more restrained than administration officials have used to describe NAFTA in the past, especially in the heated national debate of late 1993 when Congress was weighing whether to approve free trade with Mexico.

During the 1993 debate, for example, Mickey Kantor, then the U.S. trade representative, predicted on "Larry King Live" that the generation of high-paying jobs under NAFTA "will have a huge impact on this country."

The administration's decision to refrain from claims of greater success in the new report reflects a recognition, privately conceded by White House aides, that the accord was oversold and that the cause of free trade has suffered as a result. Polls have shown that the U.S. public widely views NAFTA as a failure, especially since the Mexican peso crisis of late 1994 threw Mexico into deep recession and turned the U.S. trade balance with its southern neighbor sharply negative.

The report's tone and wording was carefully chosen after weeks of internal discussion, administration officials said. That's because the report, which was mandated by congressional legislation, is expected to play an important political role in the looming debate over whether to extend free trade to Chile and other Latin American countries. President Clinton faces a tough battle in September to secure negotiating authority from Congress for his initiative to create a hemisphere-wide area with no trade barriers.

By adopting a stance similar to many mainstream economists—who

> ***"NAFTA had a modest positive effect on U.S. net exports, income, investment and jobs supported by exports."***
>
> The Clinton administration report

contend that NAFTA's impact has been positive but only marginally so—the administration will help its cause on Capitol Hill, predicted Rep. Robert T. Matsui (D-Calif.), a NAFTA supporter who is ranking minori-

See NAFTA, G2, Col. 1

NAFTA, From G1

ty member on a House trade subcommittee. "I think the administration wanted to show that it's a modest positive, but let's not get too excited," he said.

The White House concluded that it was senseless to risk being accused of overselling NAFTA again, administration officials said, noting that the critics of the pact are no longer forecasting millions of jobs being lost as a result. "We're not in the heat of a congressional battle over NAFTA, where the opponents were dramatically exaggerating the negative consequences," one White House official said.

Accordingly, the report asserts that "NAFTA had a modest positive effect on U.S. net exports, income, investment and jobs supported by exports." It cites a study by the forecasting firm DRI/McGraw-Hill Inc. concluding that if the impact of Mexico's financial crisis is factored out, NAFTA can be credited with raising U.S. exports to Mexico by \$12 billion in 1996 and imports from Mexico by \$5 billion.

This and other studies, according to the report, "suggest that NAFTA has boosted jobs associated with exports to Mexico between roughly 90,000 and 160,000." But that figure does not account for job losses associated with increased imports from Mexico, and even so it is negligible compared with the 10 million jobs that the U.S. economy has created overall since NAFTA went into effect.

NAFTA's critics do not accept even the toned-down administration view of NAFTA's impact. An organization of labor-oriented and environmental groups, anticipating the administration's report, issued their own study late last month blasting the pact for having hurt "many more" citizens of NAFTA countries—Americans, Mexicans and Canadians—than it helped.

In that report, the Economic Policy Institute, the Public Citizen's Global Trade Watch, the Sierra Club and other organizations said that while exports to Mexico had risen 36.3 percent and exports to Canada had risen 33.4 percent from 1993 to 1996, "growth in U.S. imports from Mexico and Canada ... was much larger—82.7 percent and 41.1 percent, respectively." Resulting job losses could be estimated at 420,000, the report said.

The administration's report, however, disputes the suggestion that NAFTA is to blame for the deterioration in the trade balance with Mexico, citing the peso crisis and the Mexican recession instead. NAFTA at least helped minimize the adverse impact of those developments on the U.S. economy, according to the administration's report.

Nafta Is Good for U.S., Clinton Study Says

Finding Comes as President Is Seeking 'Fast Track' To Negotiate New Pacts

By ROBERT S. GREENBERGER
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON – In a prelude to renewed debate over its trade policy, the Clinton administration says in a report set for release today that the North American Free Trade Agreement has had "a modest positive effect" on the U.S. economy.

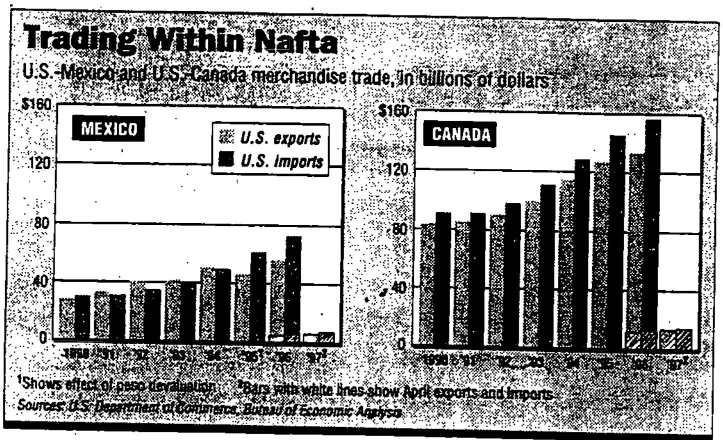
The administration's report, which assesses the first three years of the pact, concludes that Nafta has produced gains in U.S. exports, income, investment and jobs, as tariff barriers in Mexico have dropped sharply. "Two-way trade with our Nafta trading partners has grown 44% since the Nafta was signed, compared with 33% for the rest of the world," the report says.

The debate over trade – focusing on the politically charged question of whether it produces or costs U.S. jobs – will be taken up again this fall, when the administration asks Congress for "fast track" authority to negotiate new trade pacts and bring Chile into Nafta. That debate, in effect, will be about globalization and how to deal with workers who are left behind. It also will be heavy with political content, as Rep. Richard Gephardt (D., Mo.), the House minority leader and a likely challenger for the presidential nomination in 2000, opposes expanding Nafta without major changes.

No Amendments Allowed

Fast track permits the president to negotiate trade agreements, which Congress then votes either up or down but can't amend. Labor unions and others are insisting that labor and environmental standards be part of trade agreements; the administration, which is searching for a compromise, warns that it will be impossible to negotiate new trade deals with such encumbrances.

The administration says trade with Mexico under Nafta has created 90,000 to 160,000 U.S. jobs. An administration official adds that Nafta-related employment gains stemming from trade with Canada are more difficult to calculate, as the U.S. had a free-trade agreement with Canada before Nafta. Still, the administration's report finds that some 2.4 million U.S. jobs depend on trade with Mexico and Canada.



Even before the administration's three-year report card was completed, six groups that are staunch Nafta critics had released a gloomy study last month. Assessing Nafta's three years, it concludes that "wages and living standards have seen downward pressure in all three countries [in Nafta], and workers' rights and bargaining power have been weakened. Damage to the North American environment has intensified. Food supplies are increasingly at risk of contamination. The cross-border trade in illegal drugs has accelerated."

Jobs Are Displaced

The critical report also scoffs at the administration's contention that Nafta has created U.S. jobs. It contends that the administration, in its zeal to sell Nafta, "completely ignores the flip side – that the far greater flows of Nafta imports have been displacing many more jobs." The report says "a large portion" of U.S. exports to Mexico are parts used in products that then are re-exported back to the U.S.

Indeed, according to the Commerce Department, the U.S. trade deficit with Canada and Mexico swelled to about $40 billion last year from a deficit of $4.53 billion in 1993, the year before Nafta.

The six groups that co-wrote the report are: the Economic Policy Institute; the Institute for Policy Studies; the International Labor Rights Fund; Public Citizen's Global Trade Watch; the Sierra Club; and the U.S. Business and Industrial Council Educational Foundation. Reality probably lies somewhere between the two reports. Outside experts say that Nafta has accelerated job and trade changes that already were under way, as the world moves into the information-technology age.

According to an administration official, the government deliberately played down Nafta's benefits in its report, in part because both the Clinton and Bush administrations had oversold the pact's job-producing potential. The mixed results now make it harder to win support for trade agreements. Still, the administration's estimate of jobs created from increased trade with Mexico is similar to the number used when it was lobbying for passage of Nafta.

But some say that the short-term focus on jobs misses a bigger point. "No one is looking at the geopolitical importance," says Jeffrey Chisholm, vice chairman of Bank of Montreal, which does business in all three Nafta countries. As the post-Cold War world divides into three major trading blocs – Asia, Europe and North America – "the expansion of Nafta is an essential component to North America's competitiveness and the balance of power."

THE WALL STREET JOURNAL
FRIDAY, JULY 11, 1997

U.S. to Report To Congress Nafta Benefits Are Modest

By RICHARD W. STEVENSON

WASHINGTON, July 10 — Four years after a bitterly divisive debate over how a free-trade pact with Mexico and Canada would affect American workers, the Clinton Administration will report to Congress on Friday that the North American Free Trade Agreement has so far generated modest benefits for the United States.

The report provides ammunition to both supporters and critics of the trade pact, and is unlikely to defuse the coming debate over the Administration's plan to extend free trade throughout the hemisphere.

"The facts point to only one conclusion: Nafta hasn't measured up," said Representative Richard A. Gephardt of Missouri, the Democratic leader in the House and one of the most insistent critics of the agreement. "Before we proceed with further trade negotiations we need to insure that trade results in real progress for the broadest cross section of people."

The Administration report, the White House's first formal assessment of the trade agreement since it went into effect in January 1994, said exporters in many industries like textiles, transportation equipment and electronics had benefited from the reduction in Mexican tariffs and that the direct benefits to the American economy would mount over time.

The report said that the pact stimulated greater exports to Mexico, ~~despite the deep~~ financial ~~crisis that~~ engulfed Mexico in ~~1995 and~~ turned a small American trade surplus with the country into a deficit that reached $17.5 billion last year.

The pact also increased United States exports to Canada during ~~the~~ last three ~~years, the report said~~, although the trade deficit with Canada doubled from 1993 to 1996, to $21.7 billion, because of a surge of

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Continued From First Business Page

imports from that country.

But the Administration, which fought hard for approval of the pact despite strong opposition from labor unions, environmentalists and other Democratic constituencies, found only sketchy evidence that the agreement had helped American workers.

The Administration said studies it commissioned suggested that 90,000 to 160,000 American jobs relied on increased exports to Mexico that have come as a result of the pact.

The report did not provide — or even try to provide — a precise accounting of how many American jobs might have been lost as companies moved manufacturing to Mexico to take advantage of lower wages there. Official said there were largely unsolvable problems in generating an accurate estimate of job losses. But the report said the number of people whose jobs were lost to Canada or Mexico was probably somewhere between 32,000, the number of those who applied for unemployment and retraining benefits under Government programs for workers displaced by changing trade patterns with those countries and nearly 100,000, those who were certified by the Government as eligible for those programs, which often cover workers not directly affected by Nafta.

While the Administration reiterated its long-held position that export-oriented jobs paid better than the national average for production workers, the report did not directly address whether the new jobs were better paying than those lost as companies shifted employment to take advantage of the new trade rules.

The trade agreement "has made a modest positive contribution to the U.S. economy in terms of net exports, G.D.P., employment and investment," said the report, which the Administration is required to submit to Congress.

While upbeat about the long-term outlook for the trade pact, the Administration report largely avoided the kinds of sweeping claims made on its behalf in 1993 when President Clinton rallied support over the intense opposition of critics who contended that free trade with Mexico would send jobs streaming south of the border. Supporters argued at the time that the agreement would create hundreds of thousands of jobs even after accounting for jobs lost; critics said the effect would be precisely the reverse.

The Administration's conclusions are largely in line with those of the last major study of Nafta, issued last year by researchers at the University of California at Los Angeles. The U.C.L.A. study found that the trade pact's effect on employment in the United States was probably a "moderately positive number."

But critics of Nafta, including unions, industries subject to greater competition and environmental watchdogs, continue to argue that the pact has been harmful to American interests and that it is a flawed model for the Administration's plans to extend free-trade agreements throughout the hemisphere.

"Wages and living standards have seen downward pressure in all three countries, and workers' rights and bargaining power have been weakened," said a report issued recently by a coalition including labor-backed groups, environmentalists and other opponents of the pact.

"For the average citizen of any of the three signatory countries, Nafta has been a failure," said the opponents' study, which was compiled in anticipation of the Administration's report by groups including the labor-backed Economic Policy Institute, the International Labor Rights Fund, Public Citizen's Global Trade Watch and the Sierra Club.

The Administration said a study commissioned from DRI/McGraw Hill, the economic consulting firm, found that exports to Mexico from the United States last year were $12 billion higher than they would have been without Nafta, after factoring out the effects of the Mexican economic crisis of 1995. The corresponding increase in imports from Mexico because of the trade pact was $5 billion, the study found.

The Administration also cited a study by the Federal Reserve Bank of Dallas that found a $7 billion increase in American exports attributable to Nafta, and a $4 billion increase in imports.

The report said that based on figures from the first four months of the year, Mexico would likely pass Japan to become the nation's No. 2 trading partner, behind Canada.

The report said tariff reductions and other market-opening steps would be phased in over the next 12 years, so it might be too early to assess the accord's full impact.

It said that the short-run effect was to increase United States gross domestic product by $13 billion last year, a small amount in an $8 trillion economy. Gains could increase to $40 billion a year in the long run, it said.

A SUMMER OF WONDER:
GIVE TO THE FRESH AIR FUND

The New York Times
FRIDAY, JULY 11, 1997

ECONOMIC BENEFITS OF THE NAFTA

- **Export Expansion**: NAFTA is playing a vital role expanding markets for U.S. products in our first and third largest trade partners, Canada and Mexico. NAFTA also acts as a buffer against reduced access to these markets of 120 million consumers.

  - With the phasing in of NAFTA, U.S. goods exports have risen to historic records in the last 3 years (1993 to 1996): up 33% to Canada, reaching $134 billion and up 37% to Mexico, reaching $57 billion.

  - **Sectoral growth**: The strength of U.S. exports to Mexico under NAFTA, even in the face of the peso crisis, is vivid in particular product areas. For example, U.S. agricultural exports to Mexico are up by 52% in 3 years, from $3.5 billion in 1993 to $5.4 billion in 1996. Exports of cereal, led by corn, are up 174% to $1.8 billion. Exports of electrical machinery are up by nearly 60% to $11 billion, and exports of paper are by one-third to $1.5 billion. Even the consumer goods category has shown strong growth, with exports up 34% to $6.5 billion.

  - A recent article in the Wall Street Journal (4/21/97), in fact, cites strong growth in U.S. manufactured exports to Mexico due to NAFTA as a principal reason behind the current economic boom in the **Midwest**.

- **High Wage Job Creation**: NAFTA has also supported the expansion of high wage jobs in the United States. Goods exports to Mexico and Canada supported 2.3 million U.S. jobs last year. Such U.S. jobs supported by exports pay 13% to 16% more than the U.S. national average. These jobs have also increased since NAFTA began taking effect, up 122,000 for exports to Mexico (to an estimated 750,000 in 1996) and up 189,000 for exports to Canada.

- **Benefits During Mexican Recession**: NAFTA proved to be extremely important to the protection of U.S. jobs and interests in light of Mexico's international payments difficulties and peso crisis beginning in late 1994. In 1995, a year in which Mexico experienced its worst recession in the 20th century (production and employment down 7%), that country continued to lower its trade barriers to U.S. and Canadian products (in line with its NAFTA obligations), while raising them in certain areas against products from the E.U. and Japan. Our share of Mexico's imports actually rose from 71% in 1994 to 76% in 1996.

  - In Mexico's previous international payments and peso crisis in 1981-82, U.S. exports were cut in half and took 7 years to recover. In contrast, in 1995 U.S. exports fell by 9% and had fully recovered in 18 months, helping to protect more than 700,000 good paying U.S. jobs supported by exports to Mexico.

  - NAFTA can also be credited with helping the Mexico recover more quickly from this recession than the recession in the 1980's. It took the Mexican economy 4 years to recover from its early 1980s recession. In contrast, in 1996, just one year after the recession, the Mexican economy grew by better than 5% and recovered two-thirds of its production. Mexican growth is expected to exceed 5% again in 1997. In that event, Mexico will have recovered from a worse recession twice as fast as it did from recession in the 1980s.

- **U.S. Trade Balance with Mexico**: The peso crisis and severe Mexican recession, not NAFTA, were responsible for the widely noted shift in the U.S. trade balance with Mexico -- from a surplus of \$1.7 billion in 1993 to a deficit of \$16.2 billion in 1996. In fact, NAFTA itself, probably helped limit to some extent the size of the bilateral deficit growth.

  - A recent study published by the Federal Reserve Bank of Dallas estimated that U.S. export growth to Mexico has been 7 percent higher than it otherwise would have been due to NAFTA, while U.S. import growth from Mexico was only 2 percent higher per year due to NAFTA.

  - During the Mexican recession and peso crisis, U.S. net employment rose by 4.8 million, the unemployment rate fell from 6.1% to 5.4% and U.S. industrial production rose by over 6% in real terms.

NAFTA AFTER THREE YEARS

NORTH AMERICA IS OUR MOST IMPORTANT MARKET

U.S. trade with Canada and Mexico is much larger relative to the size of these economies than with any other trading partners. For this reason, America's ability to compete in the global markets of the 21st century will depend on tapping the full extent of the North American market.

- In 1996, nearly one-third of U.S. two-way trade in goods with the world was with Canada and Mexico ($421 billion). And two-way trade with our NAFTA partners has grown 44 percent since the NAFTA was signed, compared with 33 percent for the rest of the world.

- Canada was in 1993 -- and remains today -- our largest export market. Between 1993 and 1996, U.S. exports to Canada were up by 33.6 percent.

- U.S. exports to Mexico grew by 36.5 percent from 1993 to a record high in 1996, despite a 3.3 percent contraction in Mexican domestic demand.

- In the first four months of 1997, U.S. exports to Mexico virtually equaled exports to Japan, our second largest export market -- even though Mexico's economy is one twelfth the size of Japan's.

U.S. ECONOMIC PERFORMANCE IS THE STRONGEST IN A GENERATION

NAFTA is an integral part of a broader growth strategy that has produced the strongest U.S. economic performance in a generation. Our growth strategy rests on three pillars: deficit reduction, investing in our people through education and training, and opening foreign markets to allow America to compete in the global economy.

- The economy has created over 12 million net new jobs since the year before NAFTA went into effect -- far more than in the other six largest industrial economies combined. At around 5 percent, unemployment has fallen to levels not sustained since the 1970s.

- Over two thirds of recent job growth has been in job categories paying above median wages.

- Inflation has fallen to levels not seen since the 1960s.

- Business investment has grown an average of 10.5 percent per year since the year before NAFTA was signed -- higher than for the other six largest industrial countries combined.

- NAFTA, together with the Uruguay Round Agreement, the Information Technology Agreement, the WTO Telecommunications Agreement, 22 sectoral trade agreements with Japan, and over 170 other trade agreements have contributed to overall U.S. real export growth of 37 percent since 1993.

- Exports have contributed nearly one third of our economic growth -- and have grown three times faster than overall income.

NAFTA CONTRIBUTED TO AMERICA'S EXPANSION

Several studies conclude that NAFTA has made a modest contribution to America's economic expansion, boosting net exports with Mexico and U.S. income, investment and jobs.

- A new study by DRI estimates NAFTA boosted real exports to Mexico by $12 billion in 1996, compared to a smaller increase in imports of $5 billion, controlling for Mexico's financial crisis.

- DRI estimates that NAFTA contributed $13 billion to U.S. real income and $5 billion to business investment in 1996, controlling for Mexico's financial crisis.

- NAFTA has boosted jobs associated with exports to Mexico between roughly 90,000 and 160,000. Jobs supported by exports generally pay 13 to 16 percent more than the national average for nonsupervisory production positions.

NAFTA CONTRIBUTED TO MEXICO'S RECOVERY

NAFTA is contributing to Mexico's prosperity and stability, even as that country carries forward a democratic transformation of historic proportions. By helping to lock in Mexico's economic reforms, NAFTA contributed to a rapid recovery of investor confidence and economic growth in Mexico following the most severe economic recession in decades.

- Following Mexico's 1982 financial crisis, Mexican output did not recover to pre-crisis levels for five years. In 1995, Mexican economic output rebounded more quickly, reaching pre-crisis peaks by the end of 1996.

- Following the 1982 crisis, it took Mexico 7 years to return to international capital markets, while in 1995, it took 7 months.

NAFTA PROTECTED AMERICAN JOBS FROM MEXICO'S RECESSION

Following Mexico's most severe economic recession in decades, NAFTA protected American exports and jobs by locking in preferential access for American companies.

- Following Mexico's 1982 financial crisis, Mexico raised tariffs by 100 percent, and American exports to Mexico fell by half and did not recover for seven years.

- In 1995, Mexico continued to implement its NAFTA obligations even as it raised tariffs on imports from other countries. As a result, American exports recovered in 18 months and were up 37 percent by the end of 1996 relative to pre-NAFTA levels, even though Mexican consumption was down 3.3 percent.

NAFTA IS LEVELING THE PLAYING FIELD WITH MEXICO

Before NAFTA was signed, Mexico had one-way free trade into the United States, benefitting from duty-free access on over half of its exports to the United States. Under NAFTA, Mexico's tariff cuts have been 5 times greater than ours, creating two-way open trade for the first time.

- Before NAFTA was signed, U.S. barriers to Mexico were already low at 2.07 percent. Mexican barriers were much higher, averaging 10 percent.
- Since NAFTA was signed, Mexico has reduced its average applied tariffs on U.S. imports by 7.1 percentage points, compared with reductions of 1.4 percentage points in the United States. The United States would have made some of these tariff reductions under the Uruguay Round even in the absence of NAFTA.
- NAFTA is bringing down Mexican barriers sector-by-sector: in electronic goods and appliances, Mexican tariff reductions of 9.0 percentage points are more than 4 times greater than U.S. reductions; in transportation equipment, Mexican reductions of 10.2 percentage points are more than 9 times greater than U.S. reductions; and in chemicals, Mexican reductions of 6.2 percentage points are more than 10 times greater than U.S. reductions

NAFTA IS HELPING AMERICAN SUPPLIERS GAIN SHARE IN MEXICO'S MARKET

NAFTA has given American workers, farmers and companies a competitive edge in Mexican markets over European and Japanese rivals. NAFTA has helped American suppliers in key industries capture share in Mexican import markets, strengthening their dominant positions.

- Increases in the U.S. share of Mexico's import market are indicative of NAFTA's effects, since they control for factors affecting foreign suppliers similarly, such as Mexico's recession.
- Since NAFTA went into effect, U.S. suppliers have seen their share of Mexico's import market grow from 69.3 percent to 75.5 percent, reflecting a 10 percentage point average tariff advantage over foreign suppliers. Mexico's share of American imports has risen from 6.8 percent to 9.3 percent.
- Sector-by-sector, American suppliers have gained share since NAFTA was signed: the U.S. share of Mexican imports is up 17.2 percentage points to 86.4 percent in the textiles sector, where Mexico has cut tariffs by 10.7 percentage points under NAFTA. The U.S. share is up 19.2 percentage points to 83.1 percent in the transportation equipment sector, where Mexico has cut tariffs 10.2 percentage points. And the U.S. share is up 5.7 percentage points to 74.3 percent in the electronic goods and appliances sector, where Mexico has cut tariffs by 9.0 percentage points.

NAFTA IS FOSTERING COOPERATION ON FUNDAMENTAL LABOR ISSUES

For the first time, the North American Agreement on Labor Cooperation (NAALC) is fostering North American cooperation on fundamental labor issues and enhanced enforcement of labor laws. Since the NAALC has been in effect, there is evidence that Mexico has improved labor law enforcement.

- The NAALC submission process has resulted in recognition of a union previously denied recognition and has led to secret union ballots at two companies where union votes previously had been monitored.
- Between 1994 and 1996, Mexico's Secretariat of Labor and Social Welfare increased funding for enforcement of labor laws by almost 250 percent.
- Mexico reports a 30 percent reduction in the number of workplace injuries and illnesses between 1994 and 1996.

NAFTA IS HELPING TO CLEAN UP THE BORDER

NAFTA includes mechanisms to address environmental problems that have long challenged communities along the 2000-mile shared border with Mexico.

- NAFTA environmental institutions are financing infrastructure projects designed to improve the environment along the U.S.-Mexico border. To date, 16 projects have been certified with a combined cost of nearly $230 million. Construction has already begun on seven projects. The NADBank will be able to leverage its capital into $2 to $3 billion in lending.
- Through the NAFTA Commission for Environmental Cooperation (CEC), Mexico has agreed to join the United States and Canada in banning the pesticides DDT and chlordane, ensuring that these long-lived, toxic substances no longer cross our border.
- Mexico reports a 72 percent reduction in serious environmental violations in the maquiladora industry since the NAFTA was signed, and a 43 percent increase in the number of maquiladora facilities in complete compliance.

NAFTA AFTER THREE YEARS

NAFTA is an integral part of a broader growth strategy that has produced the strongest U.S. economy in a generation, including sustained investment, low unemployment, healthy job creation, and subdued inflation.

- Since 1993, exports have contributed nearly one third of our economic growth -- and have grown three times faster than overall income.

- Under NAFTA, exports to Mexico have grown 36.5 percent and exports to Canada have growth 33.6 percent to record levels. Jobs supported by exports to Canada have gone up by 189,000 and jobs supported by exports to Mexico by 122,000. Export jobs generally pay 13 to 16 percent more than the national average.

Several studies conclude that NAFTA has contributed to America's economic expansion, boosting net exports with Mexico and U.S. income, investment and jobs.

- A new study by DRI estimates that NAFTA boosted real exports to Mexico by $12 billion in 1996, compared to a smaller increase in imports of $5 billion, controlling for Mexico's financial crisis. According to this study, NAFTA contributed $13 billion to U.S. real income and $5 billion to business investment in 1996.

Before NAFTA was signed, Mexico had one-way free trade into the United States, benefitting from duty-free access on over half of its exports to the United States. Under NAFTA, Mexico's tariff cuts have been 5 times greater than ours, leveling the playing field.

- Before NAFTA, U.S. barriers to Mexico were already low at 2.07 percent. Mexican barriers were much higher, averaging 10 percent.

- Since NAFTA was signed, Mexico has reduced its average applied tariffs on U.S. imports by 7.1 percentage points, compared with U.S. reductions of 1.4 percentage points.

NAFTA has given Americans a competitive edge over European and Japanese rivals, helping American suppliers capture share in Mexico's import market.

- Increases in the U.S. share of Mexico's import market are indicative of NAFTA's effects, since they control for factors affecting foreign suppliers similarly, such as Mexico's recession.

- Since NAFTA went into effect, U.S. suppliers have seen their share of Mexico's import market grow from 69.3 percent to 75.5 percent, reflecting a 10 percentage point tariff advantage over foreign suppliers. Mexico's share of American imports has risen from 6.8 percent to 9.3 percent.

By helping to lock in economic reforms, NAFTA contributed to a rapid recovery in Mexico following the most severe economic recession in decades, and protected American exports and jobs.

- Following Mexico's 1982 financial crisis, Mexican output did not recover to pre-crisis levels for five years. In 1995, Mexican economic output rebounded to pre-crisis peaks by the end of 1996.

- Following Mexico's 1982 financial crisis, Mexico raised tariffs by 100 percent, and American exports to Mexico fell by half and did not recover for seven years. In 1995, Mexico continued to implement its NAFTA obligations even as it raised tariffs on imports from other countries. As a result, American exports recovered in 18 months and were up 37 percent by the end of 1996 relative to pre-NAFTA levels, even though Mexican consumption was down 3.3 percent.

DRAFT TALKING POINTS FOR THE NAFTA REPORT

Major Themes

A Level Playing Field

- The NAFTA is leveling the trade playing-field between the U.S. and Mexico.

- The NAFTA opened the Mexican market to U.S. products; the U.S. market was already open to Mexican products. To date, Mexico has reduced its overall tariff 7 percentage points, from 10 percent to 2.9 percent, while the United States has reduced its tariffs by only about 1.5 percentage points, from an average tariff of 2.07 percent to an average of 0.65 percent after NAFTA.

- Furthermore, U.S. tariff rates would have been reduced by the GATT/WTO Uruguay Round agreement even absent the NAFTA.

Increased U.S. Exports

- U.S. exports to Mexico grew by 37 percent (or $15.2 billion) from 1993 to 1996, exceeding the 34 percent increase in global exports over the same period.

- U.S. exports to Mexico captured an increasing share of the Mexican market -- from 71 percent in 1993 to 76 percent in 1996, despite Mexico's 3 percent decline in total domestic consumption during this period.

- In 1996, U.S. exports of $190 billion to Canada and Mexico were larger than our exports to any other area of the world, including the entire Pacific Rim or all of Europe. Additionally, our exports to both Canada and Mexico set new records last year -- $57 billion to Mexico.

- If U.S. exports to Mexico continue growing at this same pace, they may equal or exceed those to Japan in 1997 as they did in April this year. Export growth to Mexico has exceeded import growth 13 out of the last 14 months.

- Through the first four months of this year, the upward trend continued. U.S. trade with its NAFTA partners was running at an annual rate of over $460 billion or one and a quarter billion dollars a day. Over 50 percent of the increase in our total exports is to NAFTA. Our exports to Mexico are up 24 percent or three times the rate for the rest of the world.

- Nearly one-third of U.S. two-way global trade in goods is with Canada and Mexico ($420 billion), and U.S. trade with our NAFTA partners has grown 44 percent from 1993 to 1996.

- By 1996, goods exports to Mexico and Canada supported an estimated 2.3 million U.S. jobs: 750,000 associated with exports to Mexico, and 1.56 million with exports to Canada.

Mexico's Balance of Payments Crisis

- In both the 1981-82 crisis and the 1994-95 crisis, the peso fell by 50 to 60 percent in nominal terms over the fist six months. However, six months after the 1994-95 crisis, the peso stabilized and began to appreciate in real terms, whereas six months after the 1981-82 crisis the peso dropped again.

- U.S. exports to Mexico fell by less than 9 percent in 1995, a decline that compares very favorably to the 50 percent decline in U.S. exports as a result of the earlier peso crisis of 1981-82, which Mexico responded to with a variety of market-closing measures.

- Despite decreased exports to Mexico in 1995, the U.S. gained market share in Mexico during the balance of payments crisis. The NAFTA locked in Mexico's commitments to lower tariffs, whereas Mexico raised tariffs on certain imports from other countries, causing them to lose market share to U.S. producers.

- NAFTA helped limit U.S. export losses during the 1995-96 Mexican recession while its exports helped Mexico recover growth quickly.

Market Integration

- In 1993, our share of Mexico's total imports was 69 percent. This has increased each year since NAFTA, to 76 percent in 1996. This is truly a remarkable achievement since historically, shares of markets generally move quite slowly. Imports from Mexico have risen dramatically, as Mexico has been able to capitalize on a U.S. economy that has been marked by strong economic growth and low unemployment. With the collapse of its internal market in 1995, Mexican industry sought new markets for its products, and NAFTA provided Mexican products that could claim NAFTA preferences and origin with a competitive edge in the U.S. market.

- Some of what we are importing from Mexico is substituting for what we used to buy from other countries -- this is a positive development, since it employs Mexicans in Mexico and Mexican workers have one of the highest propensities in the world to spend part of their income on U.S. goods. And imports from Mexico have a higher level of U.S. content than imports from virtually anywhere else in the world.

Industry Sector Analysis

Rationale for choice of sectors

- This report contains analysis on 12 major sectors which cover over 49% of total merchandise exports from the U.S. to Mexico and 57% of manufactured goods (excluding agriculture and petroleum) exports to Mexico. The sectors analyzed in the report also reflect 55% of total U.S. imports from Mexico and 67% of total manufactured goods imports from Mexico.

- A wide variety of sectors are covered in the report, including: agricultural products, consumer goods, processed food and beverages, automobiles and parts, electronic components, telecommunications, computer equipment and software, textiles and apparel, and chemicals and allied products.

- Thus, the report covers a majority of trade between the United States and Mexico.

IF ASKED:

- This report does not "cherry-pick" only positive-balance sectors. Indeed, the total deficit with Mexico in 1996 was 16 billion dollars. The sectors covered by this report accounted for $14 of the $16 billion deficit.

Key Findings

- Two-way trade in the NAFTA countries has increased significantly in virtually every sector since 1993.

- During the first year of NAFTA implementation, U.S. exports for each of the twelve major sectors included in this qualitative assessment exceeded 1993 record levels in 1994.

- In 1995, coincident with the 50 percent devaluation of the peso and contraction of Mexican consumer demand, U.S. exports in 9 of the 12 sectors declined below 1994 levels. However, in 1996, U.S. exports in 8 of the 12 sectors had regained their pre-NAFTA (1993) export volumes.

- For 1993-1996, both U.S. exports to Canada and U.S. imports from Canada grew significantly for each of the twelve sectors in USTR/DOC's qualitative assessment.

Automotive Industry

- U.S. automotive industry (motor vehicles and automotive parts) exports to Mexico grew from $7.5 billion in 1993 to $8.3 billion in 1996, an increase of 11 percent.
  - -- Total exports during the period would have been considerably higher but for a major drop-off in consumer demand in Mexico during 1995 and 1996 as a result of Mexico's deep recession.

- U.S. exports of motor vehicles to Mexico rose by more than five-fold.

- Simultaneous with this export surge, investment in the U.S. out paced investment in Mexico by a 13 to 1 ratio. General Motors, Ford, and Chrysler made investments in the United States totaling $39.1 billion from 1993 to 1996, expanding operating capacity for passenger vehicles and light trucks by nearly one-half million units. In contrast, the Big Three invested $3 billion in Mexico over the same time period.

- Between 1993 and 1996, employment in the U.S. automotive industry increased by 14.1 percent according to Department of Labor, Bureau of Labor Statistics data.

- The NAFTA has increased integration in the North American automotive industry, making U.S. parts and vehicle manufacturers more efficient and competitive in North America and worldwide.

Chemicals and Allied Products

- Between 1993 and 1996, U.S. chemicals exports to Mexico rose from $3.4 to $5.1 billion, an increase of 50 percent. U.S. exports to non-NAFTA countries grew by just 37 percent during the period.

  - -- U.S. petrochemical exports to Mexico grew by over 75 percent, to $1.2 billion. As a result of the NAFTA, Mexico opened its petrochemical sector for the first time to direct competition from U.S. firms, which helped to spur the growth of exports.

- The NAFTA eliminated Mexican tariffs on over 40 percent of U.S. chemical exports previously subject to duty. Average Mexican tariffs on U.S. chemicals dropped from 10 to 4 percent over the period.

  - -- Mexico eliminated tariffs as high as 20 percent on close to half of U.S. pharmaceutical exports to Mexico.

- Imports from Mexico increased from $0.77 billion in 1993 to $1.4 billion in 1996.

-- The NAFTA played virtually no role in the increase -- U.S. tariffs on chemicals prior to 1994 averaged 1.0 percent.

Computer Equipment and Software Industries

- From 1993 to 1996, U.S. computer hardware exports to Mexico rose by over 50 percent, reaching $1.9 billion in 1996.

  -- The increase would have been even greater but for a sharp decline in exports to Mexico in 1995, its peak recession year.

  -- Substantial Mexican tariff reductions on most U.S. equipment and software under the NAFTA aided growth in U.S. exports.

- Mexican exports to the United States rose by 61 percent over the period, to $2.9 billion.

  -- Little of this increase can be ascribed to the NAFTA as almost two-thirds of Mexico's computer exports entered the United States duty-free prior to 1994.

Electronic Components

- U.S. electronic component manufacturers exported a record $5.5 billion to Mexico in 1996, up by $3.4 billion since 1993, reflecting a compound annual growth rate of 36.9 percent over the period.

  -- Although the high growth rate cannot be attributed solely to the NAFTA, Mexican tariff cuts under the NAFTA clearly stimulated the pace of U.S. electronic component exports to Mexico.

  -- Mexican tariffs on U.S. electronic components averaged 15 percent in 1993. Under the NAFTA, Mexico immediately eliminated its tariffs on nearly 50 percent of U.S. imports.

  -- Mexico was the largest market for U.S. exports of electronic components in 1996.

Telecommunications

- U.S. telecommunications equipment exports to Mexico rose strongly in the first year after the NAFTA, but were adversely affected by Mexico's recession, falling $16 million from 1993 to 1996, to $961 million.

  -- Exports rose substantially after 1995, with growth continuing into the first quarter of 1997.

- U.S. market share has climbed in Mexico relative to other countries since the implementation of NAFTA, from 64 percent in 1993 to 85 percent in the first half of 1996. In contrast, Sweden's market share in Mexico fell from 7 percent in 1993 to less than 1 percent in 1996, and Japan's fell from 4 percent in 1993 to 2 percent in 1996.

Textiles and Apparel

- The United States is the largest intra-North American exporter of textiles and apparel, accounting for $5.6 billion, or 45 percent of the total in 1996.

  -- U.S. exports to Mexico during the period rose by 79 percent, to $2.8 billion. Exports to Canada grew by 39 percent, rising to $2.7 billion.

  -- Mexico's exports to the United States increased from $1.4 billion in 1993 to $4.2 billion in 1996. Canada's exports to the United States rose from $1.0 billion to $2.0 billion.

- Close to two-thirds of U.S. textile and apparel imports from Mexico in 1996 were products assembled from U.S.-origin component parts.

- The NAFTA helped U.S. producers optimize production and manufacturing investment in North America, resulting in a shift of production from the Far East to North America, strengthening the industry's worldwide position.

  -- Between 1993 and 1996, total U.S. imports of textile and apparel products from China, Taiwan, Hong Kong, and Korea, the major Far East Suppliers, declined 13 percent on a quantity basis, while imports of textiles and apparel from Canada and Mexico more than doubled. Most -- 64 percent by value -- U.S. textile and apparel imports from Mexico were products made from U.S. component parts, while U.S. content of imports from the Far East is negligible.

- The U.S. textile and apparel industry invested an average of $4 billion annually in U.S. production over the past two years. In contrast, U.S. direct investment in place in Canada and Mexico's textile and apparel industries was $371 million in 1995.

Processed Food and Beverages

- U.S. exports of processed food and beverages to Mexico rose over the period, from $1.9 billion in 1993 to $2.0 billion in 1996 -- despite a 31 percent fall-off in exports during 1995 due to Mexico's recession and peso devaluation.

- The NAFTA began to increase opportunities for U.S. processed food and beverage exports to Mexico.

- -- Prior to the NAFTA, Mexican tariffs were 20 percent ad valorem, with only 11 percent of U.S. products entering Mexico duty free.

- -- By contrast, close to 30 percent of Mexican products entered the United States duty free, and all but one of the remaining products tariffs faced tariffs of between zero and 10 percent.

- -- The effects of Mexican tariff reductions will be felt more strongly in later years as Mexico phases out most remaining duties over the next six to nine years.

- The NAFTA has sharply leveled the playing field. It removed Mexican import licensing requirements and made transparent Mexico's regulations for product testing, certification and labeling. The NAFTA affords stronger trademark protection in Mexico, thus aiding U.S. efforts to differentiate products, demonstrate product quality and strengthen market share.

Selected Consumer Goods

This section of the study examines four consumer goods industries:

1) household appliances; 2) household and office furniture;
3) printed products, and 4) recreational equipment.

- These consumer goods sectors encompass some of the largest and most competitive industries in the United States.

- Canada and Mexico are key export markets for the United States. In 1996, 39 percent of total U.S. exports of these goods were shipped to Canada and Mexico.

- The NAFTA gave U.S. exporters an advantage by dismantling trade barriers which enabled exporters to expand market share and in some cases the absolute level of exports. In terms of imports, U.S. trade policy changes were negligible, so the increase in Mexican imports is due to other factors.

- Before the NAFTA, U.S. exports of these products to Mexico were subject to high import duties, generally 20 percent.

- By contrast, 98 percent of U.S. imports from Mexico of these consumer products entered the United States duty-free prior to NAFTA.

  - -- Thus, increases in Mexican shipments to the United States in these sectors during 1993 - 1996 were not linked to the NAFTA. In fact, the growth rate in U.S.

imports from Mexico was 20 percent annually between 1989 and 1993, and then slowed to 17 percent annually between 1993 and 1996.

Background

Automotive Industry

- Total U.S. automotive imports from Mexico grew from $11.1 billion in 1993 to $22.9 billion in 1996, a 107 percent increase. But most of this increase is due to soaring demand for new vehicles in the U.S. Take GM's popular Suburban as an example.
  - -- GM's Jamesville, Wisconsin plant, which produces the Suburban, has been running at over 100% capacity for years. As a result, imports of Suburban increased to 100,000 in 1996 to meet U.S. demand.

- Total U.S. automotive imports from Mexico grew from $11.1 billion in 1993 to $22.9 billion in 1996, a 107 percent increase.

  Factors related to increased imports:

  - -- Heightened U.S. demand for popular sport utility and light truck models, which were already under production in Mexico when the NAFTA took effect;
  - -- Full utilization of existing U.S. manufacturing capacity for those utility vehicles;
  - -- Strong overall U.S. sales;
  - -- U.S. tariff reductions on light truck imports from Mexico; and
  - -- Growing demand for parts imports for use in U.S. domestic assembly operations.

- Imports from Mexico include a high percentage of automotive parts made in the United States.

Electronic Components

- Mexican exports to the United States rose by 41 percent from 1993 to $3.1 billion 1996, reflecting compound annual growth of 12.1 percent per year.
  - -- A strong U.S. economy drove purchases both domestic and foreign sources during the period.

Telecommunications

- Imports from Mexico increased from \$545.9 million in 1993 to \$2.2 billion in 1996 in response to a rapidly growing U.S. market, displacing Asian imports in the United States.

  -- Mexican imports tend to have a higher U.S. content than imports from other countries.

  -- Virtually all Mexican telecommunications equipment entered the United States duty-free prior to 1994, thus the increase in Mexican imports was not attributable to the NAFTA.

  -- Mexico gained market share in the United States due in part to efficient U.S.-Mexican cross-border manufacturing operations that produce cost competitive products with high U.S.-content.

Textiles and Apparel

- The NAFTA encourages production sharing in the textile and apparel sector. Mexican plants purchase large quantities of U.S. components, allowing U.S. companies to increase exports, strengthen their competitiveness, and maintain jobs in the U.S. In contrast, imports from Asia have very little, if any, U.S. content.

  -- For example, in 1996, imports from Canada and Mexico increased 160 percent over the 1993 level and accounted for 14 percent, or \$6.2 billion of the total \$45.9 billion U.S. import market. On the other hand, China, Hong Kong, Taiwan and Korea's import share fell 9 percent, from 39 percent in 1993 to 30 percent in 1996.

Processed Food and Beverages

- U.S. imports to Mexico rose from \$1.1 billion to \$1.8 billion over the same period.

McLarty Talking Points for NAFTA Rollout - US/Mexico Bilateral Relationship

- Mexico is one of our two closest neighbors in the neighborhood of the Americas. Our bilateral relationship is uniquely broad and deep. It's also a reality.

- All of you know we're joined to Mexico by an 1,800 mile border. Our cultures and histories intersect. We share many of the same values of family and faith. In fact, the United States is the world's fifth largest Hispanic nation. And just last month, Mexico overtook Japan as the second largest consumer, after Canada, of US-made exports.

- It's no exaggeration to say our relations with Mexico directly impact people's lives here at home. From trade and economic growth to drugs, immigration, and the environment, the ~~stakes are simply~~ too high to ignore our closest neighbor to the south, or to build a wall in a futile attempt to lock out the outside world.

- Rather, we must find a way to make cooperation work. That was the primary message the President took to Mexico in May, and the reason, as I have said many times, we must continue to make our relationship with Mexico a priority in hemispheric relations.

- Our actions have matched our rhetoric; our approach is working. From NAFTA, to the financial assistance package, to narcotics certification, to the President's trip where we signed 11 cooperative agreements on areas from immigration to narcotics to the environment, we seek to fundamentally redefine our relations with Mexico from traditional skepticism to practical cooperation. And as the NAFTA report shows, we believe these actions have successfully advanced US interests.

- NAFTA has provided the framework for progress. As others have said, without NAFTA the effects of Mexico's peso crisis would have lasted much longer, and been much deeper, for both Mexico *and* the United States. NAFTA has improved Mexico's access to the global economy, while providing the mechanism for future growth. And NAFTA has strengthened and protected US investment in Mexico while locking in continued economic and political reform.

- In short, open markets encourage open societies and support democracy. Sunday's election in Mexico provides a perfect example. Zedillo's dramatic, *perestroika*-like steps have now opened the door to true democratic pluralism and made the electoral process transparent and fair. Mexico is on a new, modern course for the 21st century.

- Our relations with Mexico are perhaps better now than they have been before. That's not to say difficulties won't continue to pop up. They will. But we have developed the mutual trust and cooperative framework required to deal with the obstacles which do arise. That's a historic shift. NAFT, I believe, was a first step in this dramatic transformation.

<u>NAFTA ENVIRONMENTAL CONCERNS</u>

Q: **Even though the NAFTA has been in effect for three years, the environmental situation -- particularly in the U.S.-Mexico border region -- has not improved, and may even have deteriorated. Why has the NAFTA not been more effective in addressing these problems?**

- **The NAFTA environmental side agreements** (the North American Agreement on Environmental Cooperation and the U.S.-Mexico Border Environment Cooperation Agreement) have led to new environmental initiatives along the border and increased enforcement by Mexico of relatively good environmental laws. The environmental problems that exist in the U.S.-Mexico border region precede the NAFTA and were decades in the making. To expect that after three years the environmental problems in that region would be resolved is simply unrealistic. The question is whether progress is evident; the answer to that question is yes.

- **Environmental Initiatives**: The three environmental institutions created by NAFTA are already taking concrete steps to address the region's environmental problems. (These institutions include The Border Environment Cooperation Commission (BECC) and the North American Development Bank (NADBank), as well as the Commission for Environmental Cooperation (CEC).)

    - **Certifying and arranging financing for numerous infrastructure projects** designed to reduce pollution and improve the environment in the U.S.-Mexico border region.

        - **The BECC Board has certified twelve projects** in just two years of existence (six U.S. and six Mexican). Of these, the NADBank has approved financing for four water treatment and wastewater projects, with more in the pipeline for approval. The first project to break ground, in Brawley, California, will provide much needed clean drinking water.

        - The President during his May 5-7 visit to Mexico made effective border projects that address environmental concerns a high priority. During the visit, a grant of $170 million was confirmed from the U.S. Environmental Protection Agency to the NADBank for projects to clean and preserve water along the border.

    - **The CEC has also begun work on an unprecedented list of environmental projects** in which the three NAFTA governments are cooperating to achieve such diverse objectives as protecting migratory birds, tracking hazardous wastes to ensure they are disposed of properly, and identifying sources of pollution. This work has already begun to create an entirely new and more cooperative framework to address transnational environmental questions.

- **Improved Enforcement**: Mexico has generally good environmental legislation. The NAFTA side agreement is resulting in improved enforcement of those laws.

    - **Increased the number of enforcement actions nationwide.** Enforcement actions increased from 3,119 in 1991 to between 12,000 and 13,000 annually during 1993-96; 3500 per year alone occur along the border. As a result of its inspections, in 1996, Mexico ordered 18 total facility closures, 59 partial closures, and fined 2,622 facilities.

    - **Increased the number and sophistication of its environmental inspectors.** More than 600 inspectors were trained by USG authorities in such critical areas as safeguarding against illegal CFC shipments and compliance with regulations regarding the transboundary shipment of hazardous wastes.

    - **Established environmental auditing program**: To encourage voluntary compliance by plants/factories, a new auditing program was put in place. Between 1992 and 1996, 700 companies participated in the program.

    - **Created environmental crimes unit**: The crime unit is part of the Attorney General's office and has the power to impose criminal sanctions.

    - **Results**: As a result of improved enforcement, Mexico reports the number of serious violations dropping. Mexico estimates that maquiladora industry compliance with Mexican hazardous waste laws has climbed from 25% to over 90% from 1992 to 1996. EPA data supports Mexico's estimates. The amount of maquiladora-generated hazardous waste entering the U.S. for proper disposal (as opposed to illegal disposal in Mexico or the United States) has risen from an average of 6,000 tons in 1991-1922 to 12,288 tons, reflecting maquiladora compliance with applicable laws.

- **Commitment to further progress**: Presidents Clinton and Zedillo committed to redouble efforts regarding environmental cooperation, particularly as it relates to the border, during President Clinton's May 5-7 visit to Mexico. They instructed their environment (and labor) Ministers to identify within 90 days issues requiring further attention.

NAFTA AND WORKER RIGHTS

Q. **We hear concerns about the Mexican worker rights situation, and that the NAFTA labor cooperation agreement is of no value. How do you respond?**

- **The NAFTA labor cooperation agreement** is contributing to the progress Mexico has made in enforcing its labor laws, which are as good and comparable to labor legislation in the United States and other industrialized countries. The commitment to further progress was evident during the President's recent visit to Mexico, where Presidents Clinton and Zedillo committed to redouble efforts in this regard (and with respect to the environment, particularly along the border).

- It is unrealistic to expect that after three years of operation, the NAFTA labor cooperation agreement would correct the historic problems associated with this emerging economy's labor practices. Progress in reversing that history, however, is evident. That progress has come notwithstanding the worst economic downturn in Mexico's modern history.

- **Progress** has already occurred in the form of increased cooperation to address transnational labor issues and a submission process so that citizens are able to seek enforcement of the worker rights provisions in the agreement.

  - **Cooperation**: The North American Agreement on Labor Cooperation (NAALC) (the NAFTA side agreement) is the cornerstone of the most cooperative, institutionally-based relationship on worker rights issues that we have with any developing country in the world.

    - **The NAALC's specific objectives** include: improving working conditions and living standards in each party's territory; promoting basic labor law principles; encouraging cooperation to promote innovation and rising levels of productivity and quality; pursuing cooperative labor-related activities; and promoting compliance with, and effective enforcement by each party of, its "labor law" and fostering transparency in the administration of labor laws.

    - **The NAALC's new institutions are functioning effectively**: To achieve these goals, several new institutions were created. They include: a Ministerial Council and a supporting technical secretariat. They are supported by National Administrative Offices (NAO) in each party to assist, in particular, with the enforcement element of the agreement. Each party also has a National Advisory Committee made up of public, labor and business representatives.

  - **Significant Initiatives**: Initiatives are underway in educating and upgrading skills and policy implementation across North America, including in Mexico.

- **Trinational study tours to evaluate practices to improve working conditions.** The U.S. Occupational Safety and Health Administration (OSHA), in cooperation with the National Safety Congress, have conducted tours in the construction and the petrochemical industries to evaluate and make recommendations on improving conditions in order to reduce worker fatalities.

- **Sponsorship of labor law, worker rights, and industrial relations conferences and seminars**. These programs address best practices and discuss and seek to resolve issues raised in the submission process to avoid formal dispute resolution.

- **Addressing child labor issues**: The NAALC countries are hosting a conference on "Child and Youth Labor in North America" focused on eliminating inappropriate participation of children in the workplace and improving the conditions for children legally in the workplace by reducing risks to health and safety and by safeguarding educational opportunities.

• **Submission Process**: The submission process is playing a catalytic role in "spotlighting" important worker rights issues and bringing them to the attention of the public and before decision makers in Mexico (and the U.S. and Canada). This formal process has led to concrete results:

○ **Registration of Union**: The NAFTA submission process recently resulted in the registration in Mexico of a newly-formed independent union in a Maxi-Switch production facility. This significant development grew out of the Communications Workers of America (CWA) complaint about Mexico's failure to enforce its obligations allowing the freedom of association and the right to organize and bargain collectively. As a result of the complaint, the registration of the Union was accepted as well as the regularization of the procedure in the request for the reinstatement of the workers. The complaint was withdrawn because the union's objectives had been achieved, which the CWA credited to the operation of the NAFTA procedures.

○ **Commitment to address concerns about union registration and internal union democracy**: Six of the submissions reviewed by the U.S. NAO concerned these issues. As a result of these complaints, in August 1996, the Mexican Secretary of Labor, together with the major labor and business organizations, signed a document in front of President Zedillo committing their respective organizations to address these matters.

○ **Restrictions of union organization as unconstitutional**: The Mexican Supreme Court has found that state laws that restrict union organization in the state governments are unconstitutional. The types of restrictions addressed in the decision had been reviewed and publicly reported on by the U.S. NAO in the submission process.

- **Legislative reform**: Many of the government and party controls on unions in the private sector are now subjects for reform in a bill submitted to the Mexican Senate. These controls and restrictions have been the subject of submissions filed with the U.S. NAO.

- **Regulatory Reform -- Mexican Department of Labor Guidelines**: The Mexican Department of Labor in December, 1996 issued policy guidelines addressing a number of laws and practices restricting union registration and organization. Many of the areas targeted for reform were reported by the U.S. NAO.

  - An internal review of certain labor laws and practices, commissioned by the Mexican Department of Labor, acknowledged that some practices restrict registration of independent unions in Mexico. The review was conducted pursuant to Ministerial consultations resulting from the submission process.

- **"Phantom" unions and "phantom" collective bargaining agreements:** Mainstream Mexican labor organizations and the Secretariat of Labor are considering remedies regarding the registration of "phantom" unions and "phantom" collective bargaining agreements, essentially unions and agreements organized and negotiated without the consent, and sometimes the knowledge, of membership. These practices are the subject of a submission currently under review by the U.S. NAO and have been a significant component of previous submissions.

- **Commitment to further progress**: Presidents Clinton and Zedillo committed to redouble efforts regarding labor (and environmental) cooperation during President Clinton's May 5-7 visit to Mexico. The Presidents instructed their labor (and environment) Ministers to identify within 90 days issues requiring further attention.