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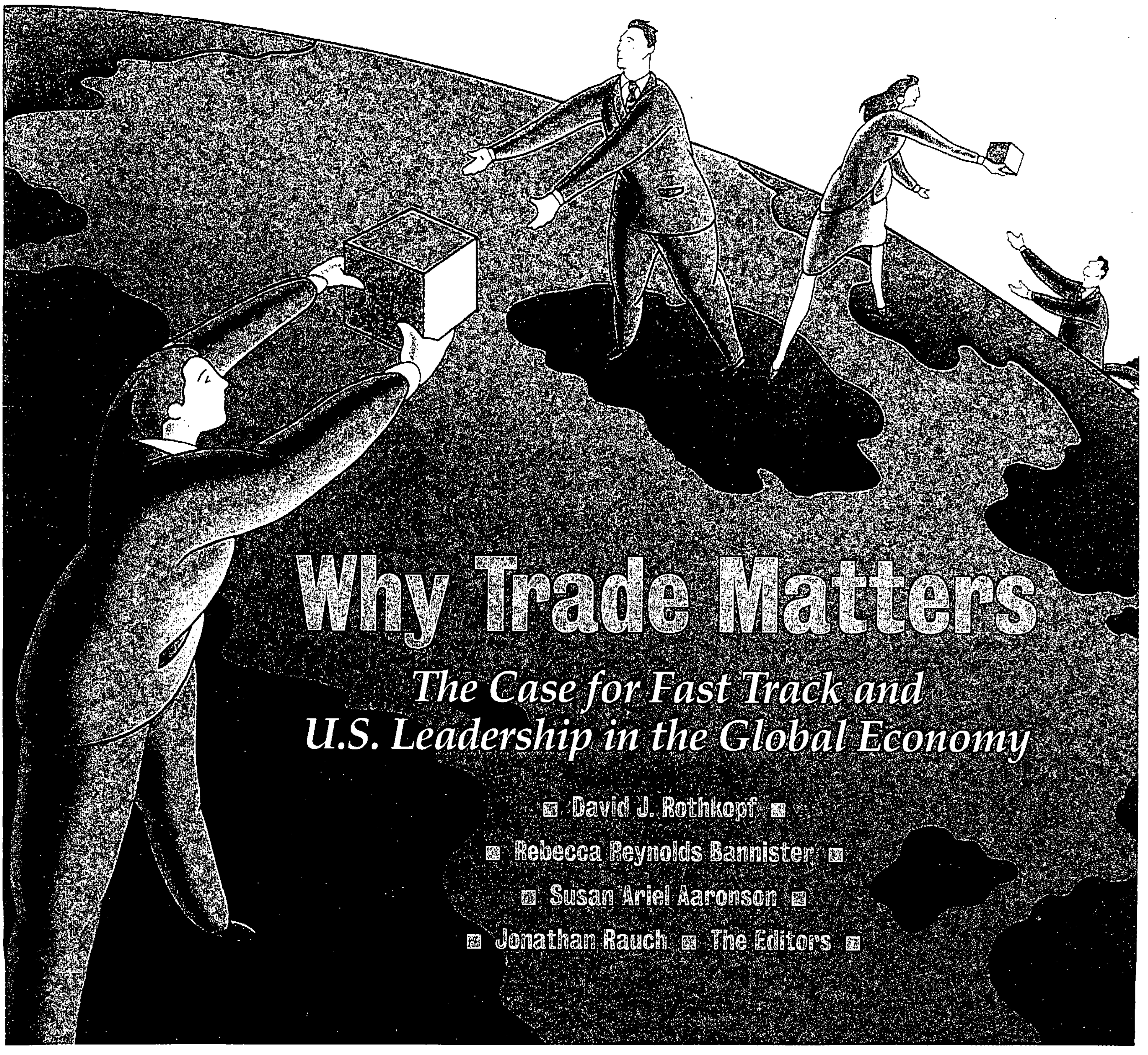
THE NEW DEMOCRAT

VOLUME NINE, NUMBER 5 SEPTEMBER/OCTOBER 1997 $3.00



Why Trade Matters

The Case for Fast Track and U.S. Leadership in the Global Economy

■ David J. Rothkopf ■

■ Rebecca Reynolds Bannister ■

■ Susan Ariel Aaronson ■

■ Jonathan Rauch ■ The Editors ■

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Fast Track

PRESIDENT WILLIAM JEFFERSON CLINTON
REMARKS TO BUSINESS BREAKFAST
BUENOS AIRES, ARGENTINA
OCTOBER 17, 1997

Acknowledments: President Menem, Foreign Minister Di Tella, Economic Minister Rogue Fernandez, Secretary Albright, Secretary Daley, Ambassador Richardson, Members of Congress, [Carlos Fedrigotti? who introduces – TK]

When my predecessor came here in December 1990, he saw a very different Argentina. A military uprising had just been put down. Inflation was soaring. Output was plunging. Today, with President Menem's leadership, you've turned this country around -- cutting inflation to almost zero… expanding trade… attracting foreign investment… and spurring tremendous growth – predicted for 8 percent this year. Argentina is on the move. And that is good for the United States as well.

Since 1990, my country's exports to Argentina have risen more than 300 percent. In that same period, our foreign investment soared from two- to approximately twelve billion dollars. Argentina's exports to the United States have risen more than 80 percent since 1992.

Behind these statistics lie human successes that are paying off for both of our peoples. My Special Envoy Mack McLarty remembers a meeting 25 years ago at Wal-Mart headquarters in Arkansas, when Sam Walton talked about expanding markets in far away places like Chicago. Today, there's a Wal-Mart in Buenos Aires – as well as smaller cities like Bahia Blanca and Santa Fe. Wal-Mart purchases 90 percent of its store merchandise from local companies. Recently, a washing machine factory in Avellaneda [pron] was reopened – backed in part by Wal-Mart orders.

General Electric Power Systems has sold state-of-the-art gas turbines and generators that will provide for more than 30 percent of Argentina's new power generation capacity. This supports good jobs for American and Argentine workers alike – and will provide Argentina with higher-quality, lower-cost, environmentally-friendly power to keep machines humming, classrooms lit and progress moving ahead.

Or, take the example of *Jugos del Sur* [HOO-gos del soor], based in the Neuquen [pron] Valley. This apple juice company was launched in 1984 with the aim of exporting to the United States. Growing at an average annual rate of 20 percent for the last ten years, today it employs 200 people and exports 4 million gallons a year. In my country, we speak of being American as apple pie. Soon, we may be saying "As Argentine as apple juice!"

We see in Argentina a sample of what is happening throughout the region. Today, the Americas embrace open markets as a powerful engine of growth. Throughout our hemisphere, barriers are falling and trade and investment are booming. And as freer trade promotes greater efficiency and economic growth in the Americas, <u>all</u> our people will have greater opportunities to gain new jobs, new skills, new wealth… and build better lives for their children.

I am firmly committed to opening trade in our hemisphere and around the world. That is why I am determined to secure fast track negotiating authority. My country's future lies together with the future of this hemisphere. We cannot afford to sit on the sidelines while others share the benefits of Latin America's growth. I'm pleased that Senate and House Committees have approved this legislation. I will continue to work closely with Congress to pass the bill this year.

Argentina is playing an important role in bringing our hemisphere together. Together with Brazil, through your strategic alliance, you are spurring democracy, economic reform and regional security cooperation. MERCOSUR not only expands trade and prosperity, it has reinforced democracy and promoted peace – as greater integration and interdependence make yesterday's hostilities unimaginable.

The United States supports this process of hemispheric integration. And we want to make sure that every building block laid – whether MERCOSUR, NAFTA, CARICOM or others – helps achieve our common goal of a free trade area of the Americas and greater cooperation among our nations. President Menem and I are committed to launch comprehensive negotiations at the Santiago Summit in April, and to achieve concrete progress by 2000. We share a vision of a thriving American market – 800 million people from Point Barrow to Patagonia, investing in each other's future and enriching each other's lives.

But even as we push for open markets and freer trade, we need to make sure that rising global commerce does not widen the gap between the haves and have-nots – or leave anybody behind. If it does, it will erode our people's confidence in the future we are trying to build.

The fact is, protectionism isn't an option – because globalization is irreversible. We cannot turn back the tide of change, but we must help determine what will be left in its wake – so the benefits of progress are not shared by some while its burdens are carried by others.

That means deepening democracy and the rule of law – including a free press and an independent judiciary. It means insisting on worker protection, so that trade enhances working standards instead of undermining them. It means promoting *sustainable* development and protecting our shared environment. It means equipping <u>all</u> of our people with the education, training and skills to succeed in the 21st century economy.

It also means embracing the new technology that can link all our people to the Information Age – and bring them all the same universe of knowledge, no matter how rich or poor. Within a generation, every book ever written, every symphony ever composed, every painting ever painted, could be at our children's fingertips with the simple click of a mouse. But first, they must have access to computers… and they need to know how to log-on.

And just as the Internet is transforming education, it's expanding the horizons of commerce. Already, Argentines can purchase everything from computer equipment to bowling balls with the simple stroke of a keyboard [TK]. Trade on the Internet is growing so fast, in just a few years, it will generate hundreds of billions of dollars in goods and services.

If we establish an environment in which electronic commerce can flourish, then every computer will be a window of opportunity for every business in the world. A global network of sales and distribution will be within the reach of even the smallest, most isolated company. You can start your business today and trade around the world tomorrow.

But in order for this new medium to flourish, we need to make sure it's predictable terrain for those who wish to trade on it. That is why I'm so pleased that Argentina has become the first country to join our initiative for global electronic commerce. Together, we will work to establish basic rules for electronic commerce to succeed.

Our nations agree that because the Internet holds such great promise for prosperity, it should be a global free trade zone – a place where government makes every effort not to stand in the way. We want to encourage the private sector to regulate itself as much as possible. We want to urge all nations to avoid imposing undue restrictions on electronic commerce. And where government involvement is needed, its aim should be to support a predictable, consistent, legal environment for commerce. We want to put these principles into practice by January 1, 2000.

Our partnership for 21st century technology reflects our commitment to shape a future in which all of our people can thrive… to bring our nations closer to one another and our hemisphere closer together.

If we support the powerful trends toward democracy, peace and open markets in our hemisphere, the Americas can be a stronghold of our security and prosperity in the future – an engine of economic growth and jobs… a sword to fight new cross-border threats… a shield against whatever storms the future may bring… and a model for the 21st century world that democracy is just, open markets deliver and cooperation works.

Each of you here is on the front lines of this quiet revolution in the Americas. You are shaping the future of our Hemisphere – in which the Americas and America can thrive together.

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QUESTIONS & ANSWERS FOR FAST TRACK SOURCE BOOK

Current? Add See new versions

BASICS OF FAST TRACK

Q: For what does the Administration plan to use this authority?

A: Fast track is about ensuring that America speaks with a united voice as we pursue our trade agenda. Our immediate plan is to use fast track to wrap up negotiations on a comprehensive trade agreement with Chile. But we will need fast track to pursue a range of other bilateral, regional, and world-wide trade initiatives that can expand export opportunities for our companies and workers. Already on the agenda of the World Trade Organization, for example, are negotiations that we can use to bring down barriers that keep our highly competitive agricultural products out of key markets around the world. We will also need fast track to initiate new negotiations to lower trade global barriers in other sectors where we are the world's leading producer -- like we did for computers and other electronic equipment through the recently concluded International Technology Agreement Fast track tells our trading partners that Congress and the President are working together to carry out America's trade agenda.

Q: **What are the risks if the Administration does not get renewed fast track authority?**

A: We have worked hard as a nation to regain our competitive position and to ensure that we continue to steer the global trade agenda for the advantage of our companies and workers. That work has paid off. **[Econ stats current as of time of use.]** If we abandon our leadership role, if we do not have the tools in place to bring down barriers to American products and services around the world, we will leave American companies and workers on the sidelines while our competitors set the world's trade policies and give each other privileged trading rights. This is not a theoretical possibility. Since 1992, our commercial rivals have concluded more than 20 regional trade agreements that leave the United States out. Every day, the world's trading nations are forging strategic and preferential alliances without us.

A recent example demonstrates that the costs of watching from the sidelines are real. In November 1996, Canada reached a free-trade agreement with Chile that eliminates Chile's 11 percent tariff on most Canadian products. Northern Telecom -- a Canadian-owned producer -- recently won a nearly $200 million telecommunications equipment contract over three U.S. companies in part because Canada's trade deal with Chile gave Northern a $20 million cost advantage over its U.S. rivals. Recently, Canada has said that it wants to move beyond Chile and form a trade alliance with Latin America's common market countries -- Mercosur -- with or without the United States.

American companies have already begun to source their sales to Latin America from Mexico or other countries that have negotiated preferential trading arrangements with Mercosur. That means lost opportunities for workers and manufacturers in the United States.

RECORD ON NAFTA

Q: What benefits has NAFTA provided?

NAFTA has played a vital role in expanding markets for U.S. products in our first and third largest trade partners, Canada and Mexico. NAFTA also acted as a buffer against reduced access to these markets, particularly, Mexico during Mexico's recession and peso crisis.

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.

The strength of U.S. exports to Mexico under NAFTA, even in the face of the peso crisis, is significantly in particular sectors 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. Similarly, NAFTA has translated into significant gains for the states' economic performance. **[Stats on state exports.]** While virtually every region in the country has benefited from NAFTA, the Midwest, in particular, has experienced an economic boom, in part, because of the increase in manufactured exports to Mexico.

These increased exports translate into job growth, jobs that pay high wages. Goods exports to Mexico and Canada supported 2.3 million U.S. jobs last year. 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. Such U.S. jobs supported by exports pay 13% to 16% more than the U.S. national average.

In addition to the direct benefits provided by NAFTA, NAFTA also shielded the U.S. from the potentially more serious consequences of Mexican recession. 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. Also, while the recession did cause a deterioration in our trade balance with Mexico, NAFTA 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.

Q: How has NAFTA helped the agricultural sector?

NAFTA has ensured U.S. agriculture products exporters increasing access to Mexico, their third largest export market; they enjoyed a $1.3 billion trade surplus with Mexico in FY1996 (up 37% from FY1993).

In 1996, U.S. farm and food exports to Mexico soared by $1.9 billion to reach another record level of $5.4 billion. A range of agricultural sectors enjoyed significant export growth and a larger share of Mexico's market. For example, the U.S. market share of Mexico's pork market went from 77% in 1994 to 95% in 1996.Exports of corn, grains, soybeans, wheat, cotton and rice all set new value records in 1996.

Because of Mexico's commitments under NAFTA, U.S. agricultural exports were able to recover fully in 1996 after the Mexican recession in 1995.Despite its recession, Mexico maintained its commitment to reduce tariffs thereby limiting the effect of the recession. Thus, while exports to Mexico declined in FY1995 due to the recession, they increased dramatically by 35% in FY1996 to regain any shortfalls in FY1995 and reach record levels.

Q: Hasn't NAFTA created a trade deficit with Mexico, resulting in the loss of thousands of U.S. jobs?

The trade deficit with Mexico was caused by Mexico's recession and peso crisis, not NAFTA. Mexico experienced its worst economic downturn in modern history in 1995. As a result of the peso crisis, investment fled and interest rates jumped.. Mexican production fell by nearly 7 percent, making Mexico's recession about three times worse than the last U.S. recession in 1991-1992. Mexico's imports fell and the sharp decline in its domestic spending power made more of its remaining production available for export.

During that same period, the U.S. economy was growing, which contributed to the trade deficit with Mexico. Between 1994 and 1996, U.S. net employment rose by 4.8 million, the unemployment rate fell from 6.1 to 5.4 percent and U.S. industrial production rose by over 6 percent in real terms.

If anything, the trade deficit would have increased further if it were not for NAFTA. During the recession, Mexico continued to lower its trade barriers as required by NAFTA. Compare that behavior to the last economic crisis in 1981-1982, during which Mexico imposed 100% duties on American products and strict licensing requirements. In that crisis, U.S. exports were cut in half and jobs supported by exports fell by more than 50%; it took 7 years to recover to 1981 levels.

In this crisis, Mexico increased tariffs on certain products from our competitors, but not on our products. In this period, U.S. exports fell by 9% and fully recovered in 18 months, protecting the 750,000 jobs that depend on those exports. A Federal Reserve of Dallas study concluded that U.S. export growth was 7% higher than would have been absent NAFTA; import growth from Mexico only 2% higher because of NAFTA.

Issue: How can you argue that U.S. workers have benefited from NAFTA?

NAFTA has increased exports, supporting and creating U.S. jobs. Under NAFTA, U.S. goods exports have increased. Exports to Canada increased 33 percent from 1993 to 1996, reaching $134 billion. Exports to Mexico rose 37 percent during the same time period, totaling $57 billion. Increased exports to the NAFTA countries supported the expansion of high wage jobs in the United States. Goods exports to Mexico and Canada supported 2.3 million jobs in the United States last year. These jobs pay 13 to 16 percent more than the national average. NAFTA has created 122,000 new jobs supported by exports to Mexico and 189,000 new jobs supported by exports to Canada.

NAFTA also insured that the jobs that rely on exports, particularly to Mexico, were protected during Mexico's financial problems. Notwithstanding Mexico's worst recession in the 20th century, it continued to lower its trade barriers to U.S. and Canadian products.

Q: **How can you argue that trade with Mexico and Canada has not hurt U.S. workers when over 100,000 have been certified for assistance because they lost their jobs due to imports from those countries or plant relocations to those countries?**

As we move farther towards a global economy, of which NAFTA is a part, we create new opportunities that require increasingly higher skill and education. Many such opportunities were created as evidenced by the more than 300,000 jobs created as a result of expanded exports to the NAFTA countries. For those workers you experience dislocation during this transition we must and do provide support.

It has to be appreciated, however, that from January 1994 through March 1997, approximately 10 million U.S. workers experienced involuntary job displacement. Of those 10 million, 72,646 were certified as having experienced dislocation as a result of imports from Mexico (or displacement to Mexico). The assistance available to workers so certified goes beyond that given to workers who otherwise experience job dislocation, ie., they receive unemployment compensation for longer than others if they cannot find a job. Of this 72,000, only about 5,000 actually did not find new jobs before normal unemployment benefits expired. They received extended benefits under the legislation passed as part of NAFTA.

More generally, job growth in the United States has been strong during the entire time NAFTA has been in effect. In fact, all job displacement was offset and net employment actually increased by 9.3 million. In effect, for each job that was lost, a new one was created. **[Rebut that it is a less desirable job.]**

That said, we must be concerned anytime one of our workers does not have the skills necessary to take advantage of new opportunities. Therefore, we remain committed to creating expanded education opportunities. **[Budget and expanded education.]**

Q: Effect on peso crisis. What role did NAFTA play in the collapse of the peso in 1995 and the decline of the Mexican economy?

A: The sharp decline in the Mexican economy in 1995 and the peso crash had its roots in

Mexico's exchange rate policy in the 1980s, long before the NAFTA was envisioned. The rise in interest rates, collapse of the Mexican financial markets and the 7% decline in production and employment, undermined the Mexican economy, and these events had little to do with the NAFTA.

The NAFTA did force Mexico to meet market-opening obligations, and in spite of a recession three times worse than the U.S. recession of 1991, our exports to Mexico recovered in just 18 months. By contrast, after the peso crash of 1982, Mexico erected across-the-board trade barriers and U.S. exports took seven years to recover.

From the Mexican perspective, NAFTA can, in part, be credited with helping 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.

Q: Didn't wages in maquiladora plants and in Mexico generally fall as a result of NAFTA?

Q: Aren't maquiladoras responsible for the increase in Mexican exports to the United States?

Maquiladoras actually account for a decreasing share of imports from Mexico. Exports from maquiladoras have fallen from 43 percent of total Mexican exports in 1994 to 38 percent of total exports in 1996. This trend is likely to continue as cost advantage for maquiladoras will be eliminated in time. Under the NAFTA, not all tariffs on Mexican imports have been eliminated, thus providing some cost incentive for maquiladoras to export to the United States. After all tariffs have been eliminated under NAFTA, maquiladoras will lose their cost advantage. NAFTA also assures that, when fully phased in, Mexico will not be able to import non-NAFTA components duty free for assembly and re-export to the United States. Without NAFTA, such "duty drawback" provision in Mexico could have continued indefinitely.

Q: NAFTA was supposed to bring improvements in labor and the environmental conditions in Mexico. It does not appear to have done either. How do you respond?

With respect to labor and environmental, the NAFTA side agreements are working to improve conditions that existed long before NAFTA. The labor and environmental problems in Mexico are decades in the making; it is unrealistic to expect NAFTA to have remedied them in three years. There are continuing problems and they need to be addressed. The NAFTA agreements provide the vehicle for doing so, and have resulted in important progress on both fronts.

On the environmental front progress is being made to identify and fund new environmental projects and in Mexico's enforcement of its environmental laws.

On the labor front, there is an unprecedented degree of cooperation to address the difficult labor issues and the formal process allowing the submission of complaints about continuing problems has led to solutions, change, and increased attention to these issues.

With respect to labor and environment issues, progress is continuing. In fact, Presidents Clinton and Zedillo agreed to redouble their efforts in this regard and have asked their labor and environment ministers to identify specific issues requiring more focused attention, particularly along the border.

Q: NAFTA has not really solved the most pressing trade issues between U.S. and Mexico. Why go forward with new agreements if we are not solving existing problems?

While there remain trade issues to resolve with Mexico, no trading relationship is without such ongoing issues. Neither NAFTA nor any other trade agreement is a panacea; it provides increased opportunities and a process to address outstanding and emerging issues. Pursuant to the NAFTA, we are working to solve our trade issues with Mexico and with Canada.

For example, we have made it clear that trucks entering the U.S. must comply with strict safety and environmental standards. With regard to food safety, the NAFTA imposes among the highest phytosanitary requirements of any trade agreement in the world, which must be complied with before food enters our market. With respect to labor and environment issues, progress is continuing. In fact, Presidents Clinton and Zedillo agreed to redouble their efforts in this regard and have asked their labor and environment ministers to identify specific issues requiring more focused attention, particularly along the border.

Again, withholding fast track authority will not improve these problems. Issues like this arise with all trading partners, whether we have special trade relations or not. Fast track is important so that we can create economic opportunity, exercise leadership to impose disciplines that minimize the kinds of problems to which you allude and establish processes to resolve problems when they arise.

More generally, we have backed up our trade agreements by insisting on full implementation through vigorous enforcement. We have made clear that agreements, if not implemented, will be enforced. In the past four years we have brought **[48]** trade enforcement actions. We have filed **[23]** cases to enforce U.S. rights under the new dispute settlement procedures of the WTO, having filed **[15]** complaints last year alone. We see our commitment to vigorous enforcement as vital to continuing support for our trade policy, and we will continue to use every tool that Congress has given the Executive to carry out our trade policy. **[Jane Bradley to update]**

RECORD ON SIDE AGREEMENTS

Q: What did they do?

[Summary of agreements and a little about dispute resolution]

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?

It is useful to put the status of Mexico's labor situation in context. First, Mexico's labor laws are as good and comparable to labor legislation in the United States and other industrialized countries. The NAFTA labor cooperation agreement is contributing to the progress Mexico has made in enforcing those labor laws. Second, the enforcement regime in Mexico existed long before NAFTA and reflects the historic realities of this emerging economy. It is unrealistic to expect that after three years of operation, the NAFTA labor cooperation agreement would correct the these historic problems. If the question is has there been progress and is it continuing, the answer is an unequivocal yes. That progress has come notwithstanding the worst economic downturn in Mexico's modern history.

Progress is 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. As a result of the side agreement, significant initiatives are underway to educate and upgrade skills and policy implementation across North America, including in Mexico. Such initiatives include trinational study tours to evaluate practices to improve working conditions; sponsorship of labor law, worker rights, and industrial relations conferences and seminars; hosting conferences, including on "Child and Youth Labor in North America" focused on eliminating inappropriate participation of children in the workplace.

The side agreements also resulted in a submission process so that complaints about labor practices would receive formal attention. 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). It has led to concrete results. For example, it 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.

It has also resulted in a commitment by the Mexican Secretary of Labor and major labor and business organizations to address concerns about union registration and internal union democracy, in legislative and regulatory reform, and an internal review of certain labor laws and practices, commissioned by the Mexican Department of Labor.

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?

Again, 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.

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.

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).) They have certified and arranged financing for numerous infrastructure projects designed to reduce pollution and improve the environment in the U.S.-Mexico border region. Of those certified, 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.

Mexico has generally good environmental legislation. The NAFTA side agreement is resulting in improved enforcement of those laws. Pursuant to these agreements enforcement actions have 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. The number and sophistication of its environmental inspectors has also increased, with more than 600 inspectors having been trained by USG authorities. In addition, environmental auditing programs have been established, along with an environmental crimes unit in the Attorney General's office.

This increased enforcement has resulted in a significant decrease in the number of serious violations. For example, 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.

ADMINISTRATION'S LABOR AND ENVIRONMENT INITIATIVES

What is Administration's record?

[This will come from the Statement of Policy once completed.]

What will Administration propose?

[This will come from the Statement of Policy once completed.]

DOMESTIC SUPPORT PROGRAMS

What does Administration do for people who lost their jobs?

[Spell out general assistance provided and assistance provided for NAFTA dislocation.]

What education initiatives is the Administration advancing?

A cornerstone of this Administration's economic plan has been to prepare our children for the ever increasing challenges of the global economy and equip our workers with the tools to win in that global economy. As evidenced by the recent budget agreement this Administration will not accept a balanced budget agreement that does not expand educational opportunities for all Americans.

We are opening the doors to college.

Pell Grants: We increased the grant to $3,000 in FY 1998 -- the largest increase in two decades. An additional 348,000 students will receive grants -- 130,000 young people from moderate income families and 218,000 low income students over 24.

Tax Deduction for Higher Education: $10,000 tax deduction is available for anyone taking courses to acquire or improve job skills. $17.6 billion from 1997-2002 is expected to help 8.1 million middle income students.

Work study: Continue to expand the availability of work-study jobs, including an increasing number of community service positions, working closer to 1 million work-study jobs by 2000.

Also of critical importance is preparing our children to take advantage of the opportunities our economic and trade agenda are creating.

Head Start: Working with Congress we have increased funding 43 percent from FY 1993 to FY 97 from $2.8 billion to $4 billion. The FY1998 budget will bring 86,000 more children into a program serving 800,000 in 1997.

America Reads Challenge: A $2.75 billion effort to recruit and train more than a million volunteer tutors to ensure all children can read well by the third grade.

Charter Schools: $100 million -- about double the 1997 level -- to support planning and start-up costs for 1100 schools.

Goals 2000: FY 1998 budget increases funding 26 percent to $620 million, supporting standards based reform in 16,000 public schools in all 50 states.

Technology Literacy Challenge: Double funding to help ensure that all children are technologically literate by the dawn of the 21st century. Funds state-wide plans to wire schools, train teachers, and purchase educational software and on-line resources.

CHILE QUESTIONS

Q. What are the benefits to the U.S. of concluding a trade agreement with Chile?

Concluding an agreement with Chile is of both strategic and economic importance to the U.S. Chile is a litmus test of our commitment not only to Chile (two Presidents have committed to an agreement with Chile), but to the FTAA. A failure to proceed will undermine our leadership in the region. More generally, an agreement with Chile is strategically important to ensure that the FTAA ultimately reflects U.S. inspired rules, and will be viewed in some respects as precedent for the FTAA.

Chile is a leader of economic reform in Latin America. Its average economic growth rate has been 6 percent or more for over 10 years and it has a per-capita GDP of $5,000 and growing (higher than a number of European countries), and it has dramatically reduced the number of people living below the poverty line. It has the highest savings and investment rate as a percent of GDP of any country in Latin America. U.S exports to Chile in 1996 were greater than our exports to Russia, India and Indonesia. Our exports to Chile 1990 - 96 were up 148 percent to $4.1 billion, while imports were up 72 percent in the same time frame to $2.3 billion. **[What about going forward?]**

Q. What is Chile's record on labor laws and the enforcement of those laws?

Chile's labor laws and regime are respectable, and in some ways are more advanced than those in the U.S. (i.e., maternity leave, etc.). It has a significant labor union movement and has signed more ILO conventions than the U.S. Chile recognizes core labor standards. Its workers have the legal right to associate, organize and bargain collectively. It prohibits forced or compulsory labor (and no instances of this practice are known). There is a minimum age for the employment of children (14) and restrictions on the kind of labor in which they can engage. Children ages 15-18 must obtain the permission of their parents (guardian) and may only be employed in certain sectors. Child labor is virtually non-existent in the export sector and the child labor laws are well enforced in commercial agriculture. Chilean law also provides rules regarding acceptable conditions of work, including minimum wages, hours of work, and occupational safety and health standards. The legal work week is a maximum of 48 hours. The maximum work day is 10 hours. As general matter, the stepped up enforcement of Chilean labor law has been a priority since the return to democracy as has labor law reform.

One area where critics see a weakness in the Chilean regime regards temporary workers (typically agriculture, construction, port workers and entertainers). Their right to collective bargaining remains dependent on employers agreeing to negotiate with unions of temporary workers. The Frei Administration proposed labor reform legislation in 1995 that would, among other things, provide rules for seasonal workers to bargain collectively with employers. The lower House of Congress passed the legislation, but there is still significant opposition in the Senate.

Q. What is Chile's record on environmental law and its enforcement?

Chile is a country that is increasingly focused on the need for protecting the environment and sustainable development. The Frei Administration passed a landmark Basic Framework Law on the Environment in 1994 which provides for central policy planing by the National Environment Commission which reports to the Minister of the Government. The legislation is forming a more comprehensive basis for governmental enforcement of Chile's environmental laws and policies, including the use of mandatory environmental impact assessments, which all industrial and mining projects, both pubic and private, must undergo. Chile is also taking important steps to address the air pollution problems in Santiago through a variety of regulatory and enforcement actions.

At the same time, Chile's natural resource extraction based economy has proven extremely successful. As is typical of countries in this situation, Chile's approach to environmental protection historically has not been as advanced as it could be. However, the Frei Administration, precisely because of Chile's natural resource based economy, is also extremely interested in sustainable development. Therefore, it is working closely with the United States and others to ascertain the best technical assistance and policy advice available.

Q: Will Chile agree to do what Mexico agreed to in the NAFTA labor and environment agreements?

A: Chile has indicated that it would assume the responsibilities of the existing NAFTA environment and labor agreements. In fact, in its agreement with Canada, Chile adopted the Canadian approach to the side agreements. **[Specify approach]**

Q: Chile maintains some significant sanitary and phytosanitary (SPS) barriers to U.S. exports and seems to be moving slowly to address them for fear of losing negotiating leverage in anticipation of negotiating the trade agreement. Are you pressing Chile to address our concerns?

A: Yes. We believe SPS measures should be based solely on science, and not as disguised barriers to trade. The President raised our general concerns with President Frei earlier this year, and we continue to raise them at every opportunity. USDA has forcefully presented our concerns to the Chileans. The Chileans committed to address our concerns on wheat, for example, and we are pressing them to fulfill that commitment. Furthermore, we have made concrete progress on some other products (lemons, kiwi, grapes, oranges and grapefruits). As to the general notion of holding back on solving outstanding concerns in anticipation of upcoming negotiations, we should not be surprised if this occurs. However, such a posture will not preclude the Administration from pressing Chile.

Q: Chile maintains a discriminatory tax regime with respect to imported spirits. Are you pressing them on this issue? We understand the EU may be considering a WTO dispute settlement case to try to resolve the issue with Chile.

A: We have informed Chile of our concerns with its regime, and its proposed revision of the current regime. We will continue to point out our concerns, particularly if we believe the tax system is inconsistent with the WTO.

TRADE GENERALLY

Q: Why should we reach trade agreements with low wage countries? How can U.S. workers compete in trade against workers in developing countries earning of small fraction of U.S. wages?

A: The fact is that wages for export-related jobs pay 13-16% more than the national average. Thus, creating additional export opportunities is clearly in America's interest. Our workers are able to compete with workers in low wage countries because they are the most productive in the world. They spend far less time to produce most anything than is required of workers in low wage countries. As a result, in many areas the United States has both higher wages and lower unit labor costs than our low wage trade partners.

Even state of the art facilities in developing countries are in fact far from operating as efficiently as in countries like the United States because of low productivity and frequent quality and availability problems in the domestic goods and service supplying sectors upon which the manufacturing facility depends.

The fact is that workers can and do compete successfully with low wage countries. In the last 10 years U.S. exports to low-wage countries have risen 240%, while exports to high wage countries are up just 140% and domestic sales by 75%. Exports to low wage countries now account for 42% of total U.S. exports.

Additional evidence of the ability of the U.S. to compete in the industrial sector is the overall strong growth of U.S. industrial output, up 18% in real terms since 1992 (compared to an 8% rise for Japan and a 1% decline for Germany). The growth in manufacturing employment since 1992 (up roughly one-quarter million), has been due largely to strong U.S. productivity growth in the manufacturing sector (3% to 4% a year).

Of course, competitive pressure from low wage countries may be felt greatest in U.S. industries where labor skills and productivity are lower than average. But most such jobs are not in industries that compete with imports. Indeed, imports from non-oil developing countries account for only 4% of U.S. spending and has grown only 1.5% during past decade.

We should be concerned when any part of our labor force lacks skills necessary for well-paying jobs. It is important, therefore, to maintain our commitment to education and worker retraining so that our workers can enjoy the benefits of America's increasing demand for a higher-skilled workforce.

Q: How do you respond to arguments that the trade deficit has hurt the U.S. economy and cost American jobs?

A: Trade deficits, by themselves, do not necessarily cost U.S. jobs. Trade deficits and employment both tend to rise when the economy is growing rapidly and consumers and businesses increase their spending. For example, the U.S. current account (the broadest measure of trade) was nearly in balance in 1991, during the last major U.S. recession, yet the unemployment rate peaked at well over 7% in that year. Since 1992, the U.S. economy recovered earlier and has grown faster than those of many of our major trade partners. The relative strength of U.S. growth contributed to the current account deficit expanding to $165.1 billion in 1996; however, by the end of 1996, the unemployment rate was down to 5.4% and over 11 million net jobs had been created in the U.S. economy in just four years. Today unemployment is at its lowest level in a quarter century.
We cannot lose sight of the fact that exports have created new, high-paying jobs. Today, more than 11 million American jobs are supported by exports, including one in five manufacturing jobs. These are good jobs; jobs supported by merchandise exports pay 13-16 percent more than the U.S. national average wage. Over the last four years, more than one-quarter of our economic growth came from exports -- and export growth has resulted in an additional 1.4 million export-supported jobs .

That said, the President and Congress working together over the last four years have reduced the federal budget deficit and strengthened the national saving rate. As a result, although the trade deficit has increased in dollar terms during this recovery, substantial progress has been made in that the trade deficit has been brought down substantially relative to the size of the overall economy (for goods and services, down from 3.3% of GDP at its peak in 1987 to 1.5% in 1996). In light of the budget agreement between the President and Congress, this trend should continue as we reduce the budget deficit.

SECTORAL AGREEMENTS

Q: What gives you reason to believe that this Administration would be able to conclude additional sectoral agreements if you had fast track authority?

As you know, we recently concluded the Information Technology Agreement (ITA). The ITA now covers 41 countries that account for 93% of trade in the covered products. The agreement reduces tariffs on a broad range of products of significance to U.S. businesses, including producers of semiconductors, computers, telecommunications equipment and software. These industries support 1.5 million manufacturing jobs and 1.8 million related service jobs. This agreement amounts to a global tax cut of $5 billion.

The ITA could not have been negotiated without the residual tariff proclamation authority the Administration had in the URAA. We believe more could have been accomplished if the Administration had broader authority, the kind of authority we are seeking in our fast track legislation. Specifically, we believe we could have included products beyond those currently covered, as well as addressed certain non-tariff barriers.

Our optimism about additional sectoral opportunities is real, not theoretical. At the recent APEC Ministerial, the APEC countries, which account for more than 50% of world trade, agreed to use the ITA as the model for launching new market-opening sectoral initiatives. In some cases a commitment among the APEC countries alone to reduce tariffs and non-tariff barriers can provide significant benefits to U.S. companies and workers. Where additional countries are necessary to cover the bulk of trade in a particular sector, the APEC countries agreed to collectively seek inclusion of other countries in such an agreement. This commitment is unprecedented. The APEC countries have agreed to a process for identifying and pursuing new sectoral market opening initiatives. Specifically, the APEC Ministers agreed to have their staffs identify candidates by July 15, discuss those further in August, and present to the Ministers in November those on which negotiations could commence. Among the sectors already being considered are many in which the U.S. is a market leader. [Some of these sectors include environmental technology and services, medical equipment, .

Q: It is my understanding that the Administration already has residual tariff proclamation authority under the URAA for other products. Why isn't that authority sufficient to achieve the Administration's objectives?

The tariff authority that exists under the URAA is limited to certain sectors and products within those sectors. Thus, while that authority is important for addressing important sectors like chemicals, non-ferrous metals, wood and paper products, _____, even within those sectors, it may not allow for the full product coverage that would be desirable and it does not allow us to address non-tariff barriers. For example, the ITA was concluded using that residual authority. Had we had broader authority, we could have covered additional products and addressed non-tariff barriers. [Specifics] ITA-II, which the APEC Ministers agreed to pursue, would pursue those objectives.

More generally, for many other sectors in which the U.S. is a global leader. e.g., environmental technologies, medical equipment, _____, no such authority exists. Only a new grant of fast track authority will allow us to pursue fully these sector initiatives.

Q: I understand that environmental technology and services is among the sectors being considered for a market opening initiative. Can you comment and, if so, why is this in the U.S. interest?

Environmental technology and services is one of the sectors that was mentioned at the APEC Ministerial in Montreal, [and we are currently considering whether it is a sector that we will recommend for such an initiative.] Such an initiative would not only benefit U.S. business and workers, but contribute to exporting to the world the technology and know-how to improve environmental conditions.

The United States is the largest producer of environmental goods and services in the world, accounting for approximately forty percent of the global market. The global market is growing rapidly; today it is estimated at between $250 to $420 billion and is expected to reach $600 billion by the year 2010. [Currently, this industry employs 1.3 million Americans or 1.7% of the U.S. workforce and projected growth over the next few years is expected to be between 3 and 4 percent. [Growth of 3-4% or growth to 3-4%? Does this assume increased export opportunities?] Even though the U.S. is a market leader, the U.S. continues to lag well behind in exports from this sector to other countries. Currently, only six percent of U.S. environmental industry revenues are from international markets, while our major competitors, Germany and Japan, derive 20% of their revenues from exports.

The U.S. environmental technologies market, although one of the most advanced in the world, is facing a fiercely competitive global market. Numerous countries, including Japan, Germany and France spend billions of dollars to promote and finance their environmental technologies exports. In addition to tariff barriers, an agreement would address environment-related service barriers. [What other barriers exist?]

Q: I have heard the among the sectors that might benefit from renewed fast track authority is the medical equipment sector. How so?

The U.S. holds the strongest position in the global medical goods industry and is responsible for almost one-half of total global production. Due to the increasingly innovative U.S. medical device industry, the U.S.'s closest competitors with regards to total global production are Europe with 30% and Japan with 18%. The United States, along with Japan and Europe, is a market leader in exporting medical equipment to countries attempting to develop their health care infrastructure.

Further trade liberalization in this sector is in the U.S. interest. For example, growth markets in Latin America, Eastern Europe and to some extent Asia are critical to U.S. exporters. In most cases though, the tariff rates in these growth markets are high and unbound. We envision expanding the Uruguay Round zero/zero in medical equipment to include additional countries and any remaining products that are not already contained in the UR agreement. Although most medical equipment in these growing markets is currently procured by governments, which waive duties, their participation in the existing zero/zero tariff initiative would bind zero tariffs as health care is privatized.

In addition, we would pursue non-tariff barriers and procurement practices, which pose the major obstacles to U.S. export growth. For example, we would seek to obtain commitments from countries that are not currently signatories to the Government Procurement Agreement (GPA) with respect to procurement of medical equipment by government-owned hospitals.

The U.S. is also a market leader in "exporting" services that use the equipment around the world. Hospitals, clinics, and testing and analysis facilities are examples of such services. The U.S. exports these services through investment, by electronic means ("telemedicine"), or by foreigners traveling to the United States for health care. To complement the goods market access commitments, therefore, we would seek commitments to remove barriers to services that use the equipment.

In addition to the economic benefits that such a sectoral agreement would reap, the human dimension is noteworthy. By exporting the equipment and know-how, we help increasing access to high-quality medical care and provide access to millions of people in developing and developed countries.

MULTILATERAL AGREEMENTS

What multilateral agreements is the Administration considering?

Why are these good/important for America?

<u>HOW WOULD FAST TRACK HELP</u>

Farmers

Service industries

Hi-tech industries

Manufacturing industries

Environmental technology

NAFTA Study Related Questions and Answers

Index

General Issues

Q: Why was the Study late?

A: Study is a serious effort to respond to Congressional request. Took longer to prepare given complexities, and Congress was on recess last week when due.

Q: What are the conclusions of the President's NAFTA Study?

A: NAFTA has made a modest positive contribution to economic expansion.

DRI estimates exports increased by $12 billion, imports increased by $5 billion, and GDP increased by $13 billion in 1996 (real terms).

NAFTA generating exports, trade and higher paying U.S. jobs; NAFTA specifically generated 90,000 to 160,000 (est) export supported jobs re Mexico; better positioned competitively; protected exports from 80s peso crisis scenario.

U.S. exports 1997 near equal exports to Japan even though Mexico's economy is 1/12th size.

U.S. gained market share in Mexico at over twice the rate Mexican gained share in U.S.

Labor and environmental agreements set in motion cooperative activities; encouraged effective labor/environmental enforcement- both starting to produce.

Q: What about the problems the NAFTA has caused that are addressed in the Study?

A: Cannot attribute any significant problems to NAFTA; provides a venue for U.S. to build on its competitive strength; NAFTA may lead to some shifts in productive resources.

Q: The NAFTA critics claim the President's Study is a whitewash and overlooks the problems. How do you respond?

A: Study is considered view of the Administration, drawing on the expertise that resides in Executive Branch, and spectrum of views outside the government.

Q: The legislation includes a provision requesting "any appropriate" recommendations by the President with respect to the operation and effects of the NAFTA. Does the report contain any recommendations? If not, why not?

A: No need for recommendations. NAFTA is working.

Q: **Given that the Study concludes the NAFTA is a good agreement for the United States, does the Administration still plan to negotiate Chile's accession to the NAFTA?**

A: President committed to comprehensive FTA with Chile; NAFTA is a good FTA; however key issue is obtaining enactment of fast track legislation; Administration focused on that; consider exact form of the agreement with Chile once fast track is in place.

Q: **Do you think this Study will give a boost to fast track prospects in the fall?**

A: If Study persuades Members to think favorably about trade agreements, or maintain an open mind, that is helpful; however, fast track is about the global trade agenda, not Mexico.

Q: **The North American Free Trade Agreement is an agreement between Canada, Mexico, and the United States. Why does the report focus primarily on Mexico and less on Canada?**

A: Congressional reporting requirement geared towards Mexico.

Q: **How will Mexico and Canada react to this Study?**

A: Ask the governments of Canada and Mexico, but expect to be fine.

<u>KEY ECONOMIC ISSUES</u>

Q: **What were the results of the economic analysis in the NAFTA Report?**

A: Studies found modest positive effect on economy.

Direct effects:

- DRI/McGraw Hill showed 96 exports to Mexico $12 billion higher/imports $5 billion higher than without NAFTA; NAFTA added $13 billion to GDP in 1996.
- Federal Reserve Bank of Dallas, NAFTA increased U.S. exports by $7 billion in 1994-95, added $3 billion to imports.
- $7-12 billion in additional exports due to NAFTA (Dallas Fed and DRI results) supports 90,000-160,000 U.S. jobs; wages 13-16% above the average wage.

Indirect effects:

- Indirect impact may have been even more important: Mexico respected NAFTA obligations; helped solidify support for reform; restore confidence; contributed to Mexico's rapid recovery, and recovery of U.S. exports.

Direct and indirect effects boosted U.S. exports to Mexico to record in 1996; and to increase in U.S. market share of Mexico's imports - 69 percent 1993 to 75.5 percent 1996.

Q: What does the NAFTA Study conclude regarding the effects of NAFTA on U.S. jobs?

A: Increased exports to Mexico in 1996 were $7-12 billion higher due to NAFTA; exports supported 90,000-160,000 jobs, at wages higher than average.

Difficult to say how much NAFTA increased overall U.S. employment; can say that NAFTA led to an increase in higher-paying jobs.

Q. What about earlier Administration estimates of 310,000 jobs supported by exports to Canada and Mexico?

A; Still accurate. That is estimate based on total exports to Canada and Mexico. It is consistent with 90,000 to 160,000 estimate which is isolating the NAFTA effect with Mexico only.

Q. How do you respond to the critics charge that the NAFTA has caused over 400,000 jobs to be lost?

A: It is not based on the facts.

U.S. net employment increased by 8.6 million jobs from 1993 to 1996. Unemployment rate dropped from 6.9 percent in 1993 to 5 percent in June 1997. The U.S. economy cannot be losing jobs overall as the unemployment rate has declined to this degree.

President's Study estimates that the NAFTA has contributed to an increase in jobs supported by exports to Mexico alone of between 90,000 to 160,000.

Based on Department of Commerce, the Administration estimates total exports to Canada and Mexico support 2.3 million jobs.

The 400,000 job loss figure is premised on the view that trade deficits automatically result in job losses. Last 40 years proves this assertion incorrect: U.S. employment generally grew more and the unemployment rate was lower when the U.S. trade balance was worsening.

Wrong to assume imports displace jobs, for instance many imports provide critical inputs that are in short supply (i.e., petroleum, etc) or

Q: **What does the NAFTA Study conclude regarding the causes of the U.S. trade deficits with Mexico and Canada since NAFTA was implemented?**

A: Outside studies show that deterioration of our trade imbalance with Mexico/Canada not attributable to NAFTA, but function of exchange rate values and other macroeconomic forces, notably the 1995 economic contraction in Mexico and contrasting strong U.S. economy.

Study notes that some analysis concludes our bilateral trade deficit with Mexico was $4-7 billion lower in 1996 than it would have been without NAFTA.

Q: **We understand the ITC's analysis presents a mildly positive outcome, but there are elements you find problematic. What does the ITC analysis indicate and what are your views on their study?**

A: Commission study represents an exceptional effort to come to grips with difficult economic question.

Commission recognized many of the NAFTA's important effects not easily quantified or observed, and the full effects of the Agreement will take years to be known.

They were trying to sort out NAFTA from other effects on trade and investment during extreme volatility in Mexico among numerous factors.

ITC concluded NAFTA "has had, on balance, positive, although modest, effects on the U.S. economy and individual industry sectors."

ITC considered both quantitative and qualitative work with respect to aggregate and sectoral trade.

Certain aspects of the ITC analysis suffered from some data insufficiencies:

- ITC was only able to use data back to 1989, because at disagregated sectoral level, whereas other existing studies, DRI and the Dallas Fed, were able to use earlier data, permitting them to capture, the historical experience of the previous peso crisis in Mexico in 1982.

Q: **Why don't you rely on the ITC's finding that in the aggregate the NAFTA had positive effect in 1994, but negative effect in 1995 and 1996?**

A: ITC recognized the difficulty in trying to isolate the effects of NAFTA.

Commission refers to difficulties in questions by twice alluding to results of the formal quantitative analysis and the effects of NAFTA on aggregate trade flows in 1995 and 1996 as being "confounded" by the peso crisis

Actually , ITC concludes that 1994 was the only year in which the results were not confounded by the peso crisis.

They used too short a time series, 89-96, which does not allow them to adequately isolate NAFTA, which took place from 94-96, from peso crisis 95-96.

Q: Critics say the NAFTA is driving down American wages. Does the Study address that?

A: No reason to believe NAFTA is depressing wages.

-- America has a $7 trillion economy, and imports from Mexico amount to just 1% of that figure.

-- Half of Mexican imports entered the U.S. duty free before NAFTA, NAFTA lowered U.S. tariffs on Mexican goods less than two percentage points, which would not be expected to have any discernible impact on wages.

-- DRI estimated NAFTA contributed $13 billion in real GDP in 96. Hard to believe this would depress wages.

Q: Did the NAFTA Study find that NAFTA diverted investment from the United States to Mexico?

A: No. U.S. foreign direct investment (FDI) in Mexico averaged $3.1 billion in 1994-96, little changed from the $2.5 billion in the year before NAFTA took effect.

The magnitude of U.S. FDI in Mexico is tiny when compared to overall U.S. investment:

-- $3.1 billion average annual U.S. FDI in Mexico during the NAFTA period less than 0.3% of gross private fixed investment in the United States in 1996.

-- DRI estimated NAFTA contributed $5 billion to U.S. business investment in 96.

Q. I gather the Study concludes that the NAFTA has helped generate higher wage jobs in the U.S. and Mexico, but it also says the peso crisis forced a decline in real wages in Mexico. Explain the contradiction?

A. No contradiction. Although peso devaluation and contraction brought decline in real wages of 23 percent (1994 - early 1997), export supported jobs in Mexico pay more than other jobs in Mexico.

Manufacturing firms in Mexico with 40 percent or more of their total sales going to exports paid wages at minimum 11 percent more than non-export oriented firms.

Q: The critics say that Maquiladora operations are synonymous with wage repression for the purpose of attracting investment, making victims of workers in Mexico and in the U.S. How does the Study address this?

A: We do not condone practices designed to repress wages.

Re maquiladora industry wages, the average monthly real wage in 1993 was lower than the non-Maquiladora manufacturing wage.

However, during 93-96, maquiladora average monthly real wages surpassed non-export oriented manufacturing real wages by as much as 17 percent by 1996

Q: Many said that the NAFTA would scale back Maquiladoras, yet they still exist. How do you respond?

A: Lets get facts straight; NAFTA requires that the trade distorting elements of Mexico's Maquiladora policy be eliminated, and that is occurring. Specifically, by January 1, 2001.

Q: Why are there more Maquiladora operations now than before the NAFTA, particularly when the NAFTA is dismantling the trade distorting elements of Mexico's Maquiladora policy?

A: Major reason is export orientation and exports have driven the growth of Mexico's economy (i.e., logical since domestic consumption fell by 17 percent in 1995).

Q: While total U.S. exports to Mexico might be at an all-time high of $57 billion in 1996, aren't we just re-importing those products from Maquiladoras?

A: No. Maquiladoras providing a decreasing share of U.S. imports from Mexico, down from 49% in 1993 to 38% in 1996; amount of U.S. goods returned from Maquiladoras also decreasing in total U.S. imports, accounting for 25% in 1993 and 20% in 1996.

INDUSTRIAL AND AGRICULTURAL SECTOR ISSUES

Q: **Why did you chose these sectors to analyze in detail?**

A: Sectors represent about half of two way merchandise trade; almost two thirds of manufactured trade - agriculture, automotives and parts, chemicals, computers and software, electronic components, selected consumer goods, printed products, processed foods, telecommunications equipment and textiles and apparel.

Sectors also witnessed major increases in one way or two-way trade 1994-96 and were subject of appreciable Mexican or U.S. tariff reductions on average.

Q: **Are there any general conclusions that can be drawn regarding the sector analysis?**

A: NAFTA's market opening requirements generating new gains for U.S. industry and agriculture; building powerful North American synergies translates into global competitiveness.

U.S. share of the import market in Mexico is expanding at more than double the rate of the Mexican share of U.S. imports.

Synergies are not contributing to overall increase in imports in the U.S., but Mexico taking greater share of global U.S. imports, and Mexican imports have higher U.S. content.

Q: **Does the Study indicate which sectors are the winners and which are the losers as a result of the NAFTA? If so, what are they?**

A: No sector harmed by NAFTA. Re winners - U.S. production up virtually across the board in the sectors we examined; even with productivity gains, employment is generally steady or up, and where it has declined consistent with a decades old trend (i.e., apparel).

NAFTA serving to protect and build jobs.

AUTOMOTIVES

Q: **The U.S. trade deficit with Mexico in the Auto sector has grown by 305 percent. Hasn't this had a huge negative impact on the United States?**

A: No. Look at industry indicators:

- Employment up 141,000 jobs; Mexican employment down 8.3 percent.

- The Big 3 invested $39 billion in the U.S. since NAFTA and $3 billion in Mexico.

- Big 3 production capacity up 490,000 units in U.S. and 241,000 in Mexico; and

- U.S. retail sales are up 8.9 percent; Mexican sales declined 70 percent 1995 and not recovered.

U.S. exports of autos up five fold to Mexico 1993-96, and overall automotive sector exports up 11 percent. Previous to NAFTA could not export to Mexico due to the auto decree, except under specified circumstances.

TEXTILES AND APPAREL

Q: Does the Study indicate that the NAFTA has led to decreased employment in the U.S. textile and apparel sector?

A: Employment in the U.S. industry been on long-term downtrend for three decades. The NAFTA has protected certain textile and apparel jobs in the United States through co-production arrangements with Mexico.

Q: Isn't it true that the elimination of import quotas and tariff reductions for textiles and apparel has resulted in huge growth in imports of these products from Mexico?

A: In 1996 imports of textiles and apparel from Canada and Mexico increased 137 percent over their 1993 level. However, this reflects a shift in the growth in imports away from the Far East (China, Hong Kong, Taiwan and Korea), whose exports to the United States in 1996 were 6 percent below their 1993 level.

Rather than importing Asian garments, firms are now assembling garments in Mexico with U.S.-cut fabric.

U.S. exports of textiles rose 79 percent 1993-96.

TELECOMMUNICATIONS

Q: The United States has experienced a trade deficit in the telecom sector with Mexico in 1995 and 1996. Given this trade deficit is in a sector that has had a surplus globally, can NAFTA be termed a success for the telecom sector?

A: Telecom trade deficit with Mexico suffered 1995 and 1996 due to factors external to the NAFTA, primarily Mexico's peso devaluation and economic downturn.

Yet, U.S. telecom companies saw their share of the Mexican import market rise while other countries fell, such as Japan.

Q: Since NAFTA there has been a rise in production of telecom equipment in Maquiladoras in Mexico. Has NAFTA contributed to the "export" of U.S. jobs and production?

A: Telecom employment levels have remained at very stable levels throughout the 1990s.

Increase in Maquiladora production of telecom equipment reflects increased production of "low-end" telecom equipment. U.S. telecom industry has virtually stopped making these products over the past two decades

COMPUTERS

Q: Why did the United States develop a trade deficit in computer equipment with Mexico after NAFTA was signed?

A: U.S. did record $1.1 billion trade deficit with Mexico 1996. Due to economic conditions in Mexico in 1994-95.

Clear that NAFTA had virtually no impact on imports because U.S. tariffs were extremely low, or were zero. In fact, almost two-thirds of imports entered duty-free prior to the NAFTA.

AGRICULTURAL ISSUES

Q: Does the Study conclude that the NAFTA helps or hinders agricultural exports to Mexico?

A: Clearly helped U.S. exports and two-way trade. U.S. exports to Mexico since the NAFTA increased faster than imports from Mexico, and up 51 percent.

U.S. agricultural trade surplus with Mexico was $1.3 billion in FY 1996, 37% higher than the FY 1993 surplus.

U.S. exports of corn, soybeans, wheat, cotton, and rice all set new records.

Prior to the NAFTA, the U.S. losing export market share in Mexico; NAFTA reversed trend - U.S. supplies about 75 percent of Mexico's agricultural imports.

Q: Does the Study address the issue of tomato imports from Mexico and their impact on the Florida growers?

A: NAFTA tariff cuts have been minor factor with respect to Mexico; far bigger factor is the peso devaluation, the contraction in Mexico's economy and other factors.

In any case, Commerce negotiated a price floor agreement in response to the Florida grower concerns - agreement remains in force.

Q: What are you doing to protect against health hazards such as the hepatitis outbreak in Michigan resulting from fresh strawberries, imported from Mexico, and processed in California. Does the Study address this issue?

A: Study does not address this issue. U.S. Government has not identified source of the Hepatitis A outbreak. Furthermore, the FDA found no evidence of contamination in Mexico after visiting the fields.

Q: When is USDA going to issue its Congressionally required report on the NAFTA and agricultural trade? It was due in March.

A: Expect the USDA report to be out within the next few weeks. The President's report took precedence over the USDA report.

<u>MEXICO SPECIFIC ISSUES</u>

Q: The NAFTA has opened our borders and invited a flood of illegal drugs. How can we square free trade with our security interests? Does the Study offer any recommendations on this front?

A: The Study does not address the drugs issue. NAFTA has not "opened our borders." We have stepped up border enforcement and bilateral cooperation with respect to illegal drugs.

Q: Isn't this election a referendum on the NAFTA and the harsh economic realities in Mexico?

A: NAFTA was not a major issue in Mexico's mid-term elections.

Q: There are about 5 million illegal immigrants in the United States, most of whom are from Mexico. What is the government doing about securing our borders. Doesn't the NAFTA make this more difficult?

A: NAFTA not weakened our ability to enforce our immigration policies. On the contrary, last year the President signed into law the "Illegal Immigration Reform and Immigrant Responsibility Act of 1996."

Q: The United states unilaterally refused to implement its NAFTA obligations on cross-border trucking more than 18 months ago. With no resolution in sight, doesn't this show that the NAFTA has not been effective in resolving disputes?

A: No. We have resolved a number of differences with Mexico and Canada. In this instance, the United States delayed implementation of the cross-border trucking provisions because of our concerns over truck and driver safety.

Have made substantial progress with the Government of Mexico since then. Remain committed to the implementation of the cross border transportation provisions, and expect Mexico to address our specific and related concerns in this regard.

<u>LABOR RIGHTS AND LABOR TRANSITION ISSUES</u>

Q: Isn't the NAALC really just an agreement to talk that has had no impact?

A: No. NAALC is having an impact, unprecedented trilateral program of cooperation.

The bottom line - the NAALC obligates each Party to provide for high labor standards, to strive to improve those standards, and governments effectively enforce labor laws.

There have been important developments on the enforcement of labor laws in Mexico from 1994 to early 1997. For example:

- From 1993 to 1996, Mexico's Secretariat of Labor and Social Welfare (STPS) enforcement budget increased by nearly 250 percent (in real terms), from 4.7 million pesos to 16.2 million pesos.
- STPS reports inspectors conducted over 48,000 inspections in 1996, of which 9,609 were conducted to verify compliance with child labor laws.
- The overall rate of occupational injuries and illnesses fell from 47.0 per 1000 workers in 1994 to 39.9 in 1995 and to an estimated 32.6 in 1996.

The NAALC public submission process has resulted in recognition of a union previously denied recognition and has led to secret union ballots where union votes had previously been monitored.

Q: The critics charge that the NAALC has no specific enforcement value, or teeth, with respect to the right to organize and bargain collectively, or to strike, and the agreement is a sham. How do you respond?

A: First, the NAALC obligates the governments to provide for high labor standards and to strive to improve those standards.

Second, critics ignore the value of unprecedented public scrutiny and high level government to government consultations.

Q: NAFTA Transition Adjustment Assistance (TAA): This program proves the NAFTA has caused at least 100,000 jobs have been lost due to the NAFTA. How do you respond?

A: NAFTA-TAA is not a valid measure of the job displacement impact of the NAFTA.

First, NAFTA TAA certification does not require that a worker has lost his or her job. The Department of Labor indicates that many of those certified under NAFTA TAA are either not laid off, or may remain certified even though they are recalled back to work.

This helps explain to a significant degree why only a small portion of those certified under the NAFTA TAA (12,193 of the 99,497) have actually applied for benefits.

Second, certification under NAFTA-TAA does not require any connection to NAFTA per se. Could be associated with non-NAFTA trends involving Mexico or Canada.

ENVIRONMENT ISSUES

Q: What are the Study's findings/conclusions regarding NAFTA's effect on the environment?

A: NAFTA a positive force for environmental protection; improving enforcement and cleaning up the border.

NAFTA institutions financing infrastructure projects to clean up border. To date, 16 projects certified -- including infrastructure projects costing nearly $230 million.

Mexico increasing enforcement actions nationwide.

- 1992 through 1996, Mexico conducted 12,347 inspection and compliance verification visits in border, partially or totally closing 548 facilities, fining 9,844 facilities.

- 1992 through 1996, 712 companies signed up to participate in Mexico's Environmental Audit Program. Of those, 404 companies have completed the audit and developed implementation Action Plans, committing at least $800 million to environmental improvements.

As a result of these and other efforts, Mexico says number of serious violations dropping; e.g.:

- a 72 percent reduction in serious violations in the maquiladora industry from 1993 to 1996, and

- a 43 percent increase in the number of maquiladora facilities in complete compliance.

Mexico has agreed to join the U.S. and Canada in banning the pesticides DDT and chlordane, ensuring these long lived toxic substances will no longer cross borders.

Q: What has been done to address the water and wastewater treatment problems of the border region?

A: Since NAFTA, significant progress in addressing the water and wastewater treatment problems. For example:

- new large wastewater plants completed to service Tijuana and Nuevo Laredo; Nuevo Laredo plant is effectively removing 18 million gallons per day of raw sewage which went into Rio Grande;

- by 1999, full operation of partly-operational international treatment plant between San Diego and Tijuana will protect city beaches from raw sewage - for the first time in decades.

The BECC and the NADBank already having concrete impact on the border region, with seven projects under construction and additional priority projects (with an estimated cost of $500 million) targeted for the next two years.

Q: Critics argue that the investment chapter under NAFTA undermines our sovereignty, allowing the weakening of a country's environmental laws, as demonstrated by the Ethyl Corporation's investment dispute with Canada. Is that true?

A: NAFTA investment chapter does not overrule or weaken individual countries' national, state or local laws; environmental or otherwise.

NAFTA does seek to eliminate discrimination based on an investor's nationality. Thus, NAFTA does not prohibit governments from regulating foreign investors as they do domestic investors in order to protect consumers or the environment.

The fact NAFTA has provided system for resolving disputes does not guarantee that all claims filed will have equal merit. NAFTA's dispute mechanism should be judged according to how cases are decided, not by what gets filed, just as the United States' domestic legal system isn't judged by whether every complaint filed is meritorious.

As for the Ethyl Corporation's Chapter 11 dispute with Canada, this case has only recently been initiated by Ethyl, and the arbitrators have not yet met with the parties nor made any decision. The USG is not a party to the case and thus is not in a position to comment on it in detail, nor has the U.S. endorsed the arguments that have been made.

The NAFTA: Assertions and Responses

Provided below are responses to a number of assertions regarding the NAFTA.

1. **Assertion**

In the United States, the NAFTA has put downward pressure on wages and living standards.

Response

The NAFTA is helping to generate higher than average wage jobs in the United States by providing competitive enterprises and workers new opportunities in North America. In fact, the President's Study, which draws on extensive analysis from sources both within and outside the Administration, confirms that the NAFTA has had a positive impact on U.S. GDP, employment, income, investment and wages.

More generally, virtually all real income measures are up since 1993: real hourly earnings - 1.4 percent, real weekly earnings - 1.7 percent and real compensation per hour - 1.3 percent. The real incomes of every quintile of the workforce increased between 1993 and 1996, with the largest percentage increase for those in the lowest quintile. Furthermore, average hourly and weekly earnings in the manufacturing sector grew significantly since 1993, particularly in 1994 and 1996. In the most recent year, real average weekly earnings rose 1.8 percent (December 1995 to December 1996).

A CEA/Department of Labor study found that during the February 1994 to February 1996 period more than 68 percent of the new jobs created paid above the median wage. Furthermore, jobs supported by exports pay 13-16 higher than do other jobs. In general, increased exports and trade leads to greater productivity, and greater productivity is the key step to higher incomes.

2. **Assertion**

The NAFTA has resulted in the loss of more than 400,000 jobs.

Response

This job loss estimate has no factual basis and is premised on flawed methodologies. The NAFTA is opening the Mexican economy to U.S. goods and services whereas the U.S. economy was already generally open to Mexican commerce prior to the NAFTA. In general, the opening of markets tends to stimulate new opportunities, particularly for competitive enterprises and their workers. Within open markets, economic resources tend to be allocated in the most productive sectors. Given the longstanding openness of the U.S. economy prior to the NAFTA, and that we are only 3 years into a 15 year NAFTA implementation process, and the fact that the United States is the most competitive large economy in the world, it is not surprising that we find no evidence of measurable disinvestment or job loss in any major U.S. sector due to the NAFTA. On the contrary, we do see evidence that the NAFTA is facilitating investment and the creation of higher than average paying jobs in the U.S.

More generally, U.S. net employment increased by nearly 8.6 million jobs from 1993 to 1996. The U.S. unemployment rate dropped from 6.9 percent in 1993 to 5 percent in May 1997. The U.S. economy simply cannot be losing jobs overall as the unemployment rate has declined to this degree.

The President's Study estimates that the NAFTA has contributed to an increase in jobs supported by exports to Mexico alone of between 90,000 to 160,000. In addition, based on methodology from the Department of Commerce, the Administration estimates that since 1993 the increase in exports (whether attributable to the NAFTA or not) to Canada and Mexico have respectively supported 189,000 and 122,000 additional jobs, for a total of 311,000 higher than average paying jobs.[1] The Administration also estimates that exports to Canada and Mexico support 2.3 million jobs.

The more than 400,000 job loss figure sometimes used is a misapplication of the Administration's export/jobs methodology. The methodology is not applicable to estimating job losses due to imports. There are compositional differences in the variables to assess the displacement impact of imports versus the job generating impact of exports. In fact, there is no general methodology to estimate the job displacement impact of imports. Furthermore, imports can have the effect of generating employment in certain circumstances (i.e., in transportation, retail trades, inputs into production processes, etc.).

The over 400,000 job loss figure is also premised in part on the view that trade deficits automatically result in job losses. The last 40 years proves this assertion incorrect: although imports can have a job displacing impact in certain circumstances, U.S. employment generally grew more and the unemployment rate was lower when the U.S. trade balance was worsening. For example, the current account (the broadest measure of trade) was nearly in balance in 1991, during the last major U.S. recession, yet the unemployment rate peaked at well over 7 percent that year. Since 1992, the U.S. economy has grown faster than virtually all of our major trading partners, the U.S. current account deficit expanded to $148.2 billion in 1996, and by the end of 1996 the unemployment rate was down to 5.3 percent and roughly 11.4 million net new jobs had been created in just four years.

The NAFTA-Transition Adjustment Assistance (NAFTA-TAA) numbers are also used by some to assess the impact of the NAFTA on job losses in the U.S. However, the NAFTA-

[1] Based on Department of Commerce methodology.

TAA certification number, which from 1993 to 1996 totaled 99,497, is not a valid measure of job displacement due to the NAFTA. NAFTA-TAA does not require that a worker has lost a job, either due to the NAFTA or due to imports from Mexico or Canada, or a shift in production to Mexico or Canada. In fact, the Department of Labor reports that most of those certified under the NAFTA-TAA are either not laid off, or may remain certified even though they are recalled back to work. The Department only requires of those seeking NAFTA-TAA that there has been a decline in production or sales in the relevant company, that there has been a threat of job loss or actual job loss, and that imports or a production shift play a significant role in the threat of job loss or job loss, but not necessarily a more important role than any other cause.

3. Assertion

The NAFTA is responsible for 38 percent of the 1.1 million decline in manufacturing jobs since 1989.

Response

In the three years following the NAFTA's enactment (December 1993 to December 1996), manufacturing jobs grew by 156,000. Furthermore, in the first six months of 1997, manufacturing jobs increased another 244,000, bringing the total increase in the first three and one half years since the NAFTA was first enacted to 400,000 additional manufacturing jobs. Prior to the NAFTA, U.S. manufacturing jobs declined 1.3 million, or 6.8 percent, between 1989 and 1993.

Within this broader context, the President's Study does not claim that all these additional jobs in the manufacturing sector are due to the NAFTA. However, by opening Mexico's market to U.S. exports and providing more trade opportunities within North America, the NAFTA is generating new higher paying job opportunities and helping to ensure a more globally competitive U.S. manufacturing sector.

The 38 percent and the 1.1 million figures utilize false assumptions: 1) that NAFTA-TAA certifications are an accurate depiction of the import displacing impact of the NAFTA; and 2) that the a figure of 420,000 jobs lost is an accurate indicator of the job loss due to the NAFTA.

4. Assertion

The NAFTA weakened U.S. workers' rights and reduced employee bargaining power.

Response

The NAFTA did not change, or weaken, U.S. labor legislation, or the ability of U.S.

workers to pursue their rights. In fact, the North American Agreement on Labor Cooperation (NAALC), the supplemental agreement to the NAFTA, for the first time ensures that labor rights and the enforcement of those rights is an international obligation of the three Parties and a high priority on the North American inter-governmental agenda. Indicative of this, President Clinton in his visit to Mexico raised the importance of worker rights with President Zedillo and both agreed to redouble efforts on the issue.

Furthermore, the NAFTA has not contributed to illegal plant closings, or threats thereof, based on a study released on June 9 and commissioned by the NAALC Secretariat. The Secretariat study found that U.S. labor law is effectively enforced against employers who illegally close plants or threaten to close plants to thwart organizing efforts. In fact, fewer workers were displaced from 1993 to 1995 than from 1991 to 1993 by such closings, fewer remained unemployed following such closings in the 1993 to 1995 period, and generally more notice was provided workers[2]. The Secretariat commissioned report considered a dozen studies in preparing its report.

5. Assertion

The NAFTA in effect weakened labor standards and has failed to address violations of worker rights.

Response

The NAALC obligates the governments to provide for high labor standards and to strive to improve those standards. The standards include eleven fundamental labor principles, including the right to associate, to organize, to bargain collectively, to strike, to the elimination of employment discrimination, to equal pay for men and women and to the prevention of occupational injuries and illnesses.

With respect to Mexico, a number of steps have been taken which can only be characterized as indications that labor law enforcement and labor cooperation are higher priorities. For example, enforcement resources have increased significantly[3]. The Secretariat of Labor and Social Welfare (STPS) General Inspection Directorate budget was increased from 4.7 million pesos to 16.2 million pesos, or nearly 250 percent (real terms), from 1993 to 1996. The STPS further reports that inspectors conducted over 48,000 inspections throughout the country in 1996, of which 9,609 were conducted to verify compliance with child labor laws. Occupational safety and health indicators provided by the Government of Mexico show improvement. The overall rate of occupational injuries and illnesses reportedly fell

[2]Bureau of Labor Statistics, Current Population Survey, 1996

[3]Data from the Secretariat of Labor and Social Welfare, Mexico.

by 30 percent from 1994 to 1996, from 47.0 per 1000 workers to an estimated 32.6.

The NAALC submission process has led to results in several cases. For example, the submission process and resulting heightened attention stemming from public hearings and the prospect of consultations contributed to a decision in Mexico to recognize an independent union in an electronic assembly plant, and to an order for new hearings for four union activists who had been dismissed from employment.

In two other cases brought before the U.S. alleging the failure to recognize labor organizations, secret ballot representation elections were eventually held. This is in contrast to the historically open ballot election process, whereby workers had to reveal their vote in the presence of the government, the employer and the union.

The NAALC has also initiated a new cooperative program. The three Parties are together addressing:

- industrial relations and worker rights;
- occupational safety and health;
- employment and training initiatives; and
- child labor and gender issues.

In addition, noteworthy initiatives have been taken in Mexico during the 1994 through early 1997 period:

- The Mexican Supreme Court found two state laws that restrict union organization by state government employees to be unconstitutional. The statutory restrictions reviewed in those cases are similar to statutes in the federal government and practice in the private sector. These restrictions had been addressed in the NAALC public submission process;

- STPS in 1996 set out a policy program for employment, training, and the defense of worker rights. The document spells out five priority action areas for STPS through the year 2000, among them fostering preventative safety and health programs, modernizing administrative procedures regarding labor justice, and improving the quality and availability of legal services for workers; and

- STPS issued revised occupational and safety and health regulations. The regulations, which entered into force on April 21, 1997, for the first time cover workers in forestry, agriculture and sawmills, workers that use agricultural equipment, chemical products; they require that employers train workers re safety and health; and they strengthen protections for pregnant women and children.

6. Assertion

The NAFTA created "deep and probably chronic" trade deficits with its neighbors.

Response

The President's Study indicates that the shift in the U.S.-Mexico trade balance from a small surplus in 1994 to a deficit in 1995 was driven by factors unrelated to the provisions of the NAFTA. During the first three years of NAFTA, the average Mexican applied tariff on U.S. imports dropped 7 percentage points, from 10 to 2.9 percent, as compared to a 1.5 percentage U.S. tariff drop, from 2.07 to 0.65 percent. The low tariffs on goods entering from Mexico, and the even smaller U.S. tariff reductions on imports from Mexico could not have conceivably been a major cause of the growth in imports from Mexico during NAFTA's first three years. Rather, the strong U.S. economy, the steep decline in the relative value of the peso and the contraction in Mexican demand primarily explain the import growth from Mexico.

The President's Study generally confirmed that the NAFTA has worked to raise exports to Mexico more than imports from Mexico. That is the only logical conclusion given the initial disparity in the market access barriers, including non-tariff measures, in Mexico and the U.S. Further, Mexico's trade surplus has declined each month in 1997 and U.S. export growth to Mexico is out pacing U.S. import growth from Mexico in 1997. If the current trend continues, Mexico will exceed Japan as the number two export market for U.S. exports within a year.

7. **Assertion**

The NAFTA has weakened U.S. food safety inspections and standards.

Response

The U.S. food supply has never been safer and U.S. standards are more comprehensive than ever. Immediately after implementation of the NAFTA, the U.S. conducted increased food safety inspections of produce entering from Mexico. The result was that the Food and Drug Administration found that Mexican produce was no less safe than imports from other trading partners, and in fact had rejection rates only slightly higher than for U.S. produce. Furthermore, the NAFTA did not require the U.S., Mexico or Canada to reduce their standards, and allows for even stronger food safety laws to be implemented. The U.S. has continued to enforce its high and comprehensive standards and maintain effective inspections procedures.

8. **Assertion**

The NAFTA precipitated the 1994 Mexican peso collapse, which led to the 1995 economic depression. Furthermore, there is every reason to believe Mexico is headed for another NAFTA driven peso crisis.

Response

Decisions in the 1980s unrelated to the NAFTA laid the foundation for the exchange rate regime that existed in Mexico in the early 1990s. Those decisions, combined with a series of unforseen tragic political shocks, including the assassination of a major Presidential candidate, rattled investor confidence and resulted in a cessation of capital inflows and downward pressure on the peso. By December 1994, foreign currency reserves had fallen to what were intolerably low levels and Mexico was forced to devalue and move to a floating exchange rate. The precipitous decline in the peso's value triggered Mexico's deepest recession in more than sixty years with Mexico's GDP falling six percent and domestic consumption dropping 17 percent.

However, because of its commitments under the NAFTA, Mexico did not impose heavy restrictions on imports from the U.S. in 1995 like it did following the 1982 crisis. Such a measure would have hurt subsequent Mexican economic output by shielding inefficiencies in industry and by limiting access to imported materials and capital goods.

Secondly, and more broadly, the NAFTA supported the Mexican government's resolve to stay the course of market-based economic reforms, the kinds of reforms the U.S. had supported for decades, and gave investors confidence that Mexico was committed to market based economics. Mexico returned to international capital markets within seven months, compared to seven years after the 1982 crisis. Mexico's economy, which had fallen even further in terms of output in 1995 than it did in 1982, rebounded to its pre-crisis level in 1996 and is expected to grow at rates of 4.5 to 5 percent over the next two years according to private forecasters. However, following the 1982 crisis, Mexico's output drifted down for nearly two years before starting to rise, and nine quarters after the 1982 crisis was still about 4 percent below its pre crisis level. Furthermore, the Mexican economy registered no growth from 1982 to 1988.

9. Assertion

The NAFTA eliminated more than 2 million Mexican jobs and reduced real hourly wages by 27 percent from 1994 levels.

Response

The peso devaluation and ensuing 1995 economic contraction was the cause of the loss of 1.6 million jobs. Real wages in Mexico declined by 23 percent from 1994 to early 1997 due to these macroeconomic factors.

However, in one of its most important indirect benefits, the NAFTA is helping Mexico to recover more quickly from the 1995 economic downturn. The NAFTA has given both domestic and international investors the confidence that Mexico will stay the course of market based reforms and it has generated additional awareness within Mexico of the importance of trade to Mexico's economic growth. In fact, the numbers show how exports are important to building a higher wage economy in Mexico.

For example, Mexican manufacturing jobs associated with exports pay more than other jobs in Mexico[4]. Manufacturing firms with a significant percentage (i.e., 40 percent or more) of their total sales going to exports during the 1994 -96 period paid wages that were at least 11 percent higher than non-export oriented manufacturing firms in Mexico. For firms with an even greater export orientation (i.e, up to 80 percent of sales to exports) during the 1994 - 96 period, they paid wages that were as much as 67 percent above firms focused on the domestic market.

Maquiladora firms, which did pay less than both domestically oriented and export oriented firms in 1993, are contributing to a greater degree than in the past to increasing wages in Mexico. During the 1993-96 period, Maquiladora average monthly real wages surpassed non-export oriented manufacturing real wages (i.e, by as much as 17 percent in 1996), pulled nearly even or above certain categories of export oriented manufacturing firms (i.e., those with 40-50 percent of their sales being exports) and narrowed the wage differential with others (i.e., those with 60-80 percent of their sales being exports). Maquiladora wages also suffered less of a decline during the 1994-96 period than did the wages of manufacturing firms focused on selling domestically and abroad (i.e., a 12 percent decline in real wages versus a 23 to 28 percent decline).[5]

Furthermore, manufacturing firms in Mexico that are export oriented (i.e., 40 percent or more of their total sales went to exports) have increased employment during the 1993-96 period by up to 39 percent (in spite the 1995 contraction), with employment among manufacturing firms that exported 60 percent or more of their sales up from 581,063 in 1993 to 784,642 in 1996[6]. In contrast, employment growth in manufacturing firms in which less than 40 percent of their sales went to exports saw essentially flat employment, or slight declines.

10. Assertion

The NAFTA caused the failure of more than 28,000 small Mexican businesses.

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[4]SECOFI/INEGI data.

[5]SECOFI/INEGI data.

[6]SECOFI/INEGI data, including data on Maquiladora operations.

Response

Mexico's domestic market, and those firms selling primarily in the domestic market, suffered the brunt of the peso collapse and subsequent economic contraction in 1995. The President's Study points out that the NAFTA did not cause either the peso devaluation or the ensuing economic downturn. However, a key indirect benefit of the NAFTA is that it is proving to be a key component in Mexico's economic reform program and recovery. Indicative of this, from 1993 to 1996, the number of exporting firms in Mexico grew from 21,477 to 31,855, an increase of 48 percent. In addition, 94 percent of the new exporters had export sales of less than $5 million, demonstrating the benefits that trade is bringing to small often first time exporters in Mexico.[7] Further, firms that export from Mexico, just like firms that export from the United States, tend to pay higher wages.

11. **Assertion**

Mexico is becoming nothing more than an export platform for the United States, with an ever increasing number of Maquiladora operations exclusively focused on selling to the United States with no real benefit for either Mexican workers or U.S. workers.

Response

Since the NAFTA went into effect, Maquiladoras have been providing a decreasing share of U.S. imports from Mexico, down from 49% in 1993 to 38% in 1996[8]. Furthermore, the amount of U.S. goods returned from Maquiladoras is also decreasing in total U.S. imports from Mexico, accounting for 25% in 1993 and 20% in 1996. More generally, over the past two years, Maquiladora exports have increased by an annual average of 18 percent while non-Maquiladora exports have grown by an annual average of 34 percent.

Furthermore, Maquiladoras are not what they once were. The NAFTA requires the trade restrictive and distorting elements of Mexico's Maquiladora policy to be eliminated, and the phase out of these elements has begun. Specifically, by January 1, 2001:

- Maquiladoras will be required to pay full Mexican duties on parts and components imported from outside North America.

- All export incentives and restrictions on domestic sales are being eliminated (i.e., as of January 1, 1997, the equivalent of 70 percent of the value of a Maquiladora's exports in the previous year could be sold into the Mexican domestic market, and this

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[7]SECOFI data.

[8]Bank of Mexico

percentage will increase by 5 percentage points per year until it reaches 100 by 2001).

- Maquiladoras will operate under tax obligations comparable to those for all other plants.

In addition, exports from Maquiladora operations must meet the NAFTA rules of origin in order to qualify for preferential duty rates.

12. Assertion

The NAFTA opened U.S. borders to trucks that do not meet U.S. safety standards.

Response

On the contrary, the Administration has been stepping up the enforcement of safety standards from 1993 to 1996 with respect to the entry of Mexican trucks into the border states. With regard to the immediate border zone, for example, the Department of Transportation (DOT) has for the first time established a permanent enforcement presence at the border with Federal inspectors working in U.S. Customs import lots. The four border states received increased Federal funding for FY 1995, 1996 and 1997 totaling over $3 million for enforcement, inspection and tracking purposes. DOT's new budget reauthorization proposal includes an additional $3 million to support border state safety and enforcement programs, and $40.6 million each year for border infrastructure, including inspection facilities.

The states are also increasing their own resources dedicated to trucking safety. California has opened new inspection facilities at Otay Mesa and Calexico. New Mexico has installed new inspection facilities. Arizona has begun a training program for Mexican drivers, while Texas has hired additional enforcement personnel and is adding 150 new officers, and plans to construct new facilities at entry ports.

Furthermore, the Administration has delayed implementation of the cross border transportation provisions regarding access beyond the immediate border zone pending a satisfactory resolution of outstanding safety and related issues with Mexico. In this regard, significant progress has been made on a safety program that would include the following when agreement on all outstanding issues is reached:

- drivers in international commerce must be 21 years and have a basic understanding of the language of each country (Mexico now allows 18 year olds to obtain licenses);

- hazardous materials training;

- hours of service and driver logs;
- drug and alcohol testing;
- enhanced Federal enforcement, including hiring new inspectors, intensified roadside inspection and a public information campaign; and
- enhanced State enforcement, including additional Federal funding, increased training, equipment purchases and personnel.

More generally, Mexican trucks would be required to meet all the standards that apply to U.S. trucks in the United States.

13. Assertion

The NAFTA has weakened the ability of the U.S. to enforce its borders, particularly with respect to the entry of illegal drugs.

Response

NAFTA eliminated trade barriers. The NAFTA does nothing to reduce border enforcement. On the contrary, U.S. enforcement efforts have been stepped up significantly during the 1993 to 1996 period. The overall Federal drug control budget increased from \$12.3 billion to \$15.1 billion over the period, or 14 percent. In addition, new enforcement programs have been undertaken, such as Operation Hardline by the Customs Service, which have resulted in increased seizures. For example, last year, narcotics seizures at the southwest border increased 29 percent by total number of incidents, and 24 percent by total weight, as compared to 1995 totals. This translates into 6,956 seizures, and 545,922 pounds of marijuana, 33,308 pounds of cocaine, and 459 pounds of heroin. The total weight of narcotics seized in commercial cargo on the U.S.-Mexican border increased 153 percent over 1995 totals. In FY 1997, estimated funding for South-West Border-related activities for federal drug program agencies was approximately \$1.7 billion. One thousand Border Patrol agents, 150 INS inspectors, 625 Customs Service agents and inspectors, 50 DEA agents, 70 FBI agents, and additional deputy U.S. marshals will be added to the Southwest border this fiscal year.

Furthermore, the Administration has undertaken efforts with Mexico to address illegal narcotics which are generating action. Mexico's 1996 results were impressive: drug seizures, arrests, crop eradication, and destruction of labs and runways all increased over 1995; new laws were passed to confront organized crime, money laundering, and chemical diversions; 1,200 officials were fired for corruption; through March 1997, six criminals have been extradited to the U.S.

14. Assertion:

NAFTA's institutions are fatally flawed. The Border Environmental Cooperation Commission (BECC) and North American Development Bank (NADBank) have been slow to approve and fund projects, and the Council for Environmental Cooperation (CEC) has been ineffective in its response to Article 14 submissions.

Response

In its first three years of operation, the CEC has begun work on an array of environmental projects, encompassing such diverse objectives as tracking hazardous wastes to ensure they are disposed of properly, identifying sources of pollution, and protecting habitat for migratory birds. Through the CEC, Mexico has now joined the United States and Canada in banning the toxic pesticides DDT and chlordane, thus helping to ensure they no longer cross our borders. In real ways, the CEC has improved the NAFTA governments' ability to address North American environmental issues, for instance, by ensuring that common environmental priorities are set yearly, and dedicating resources to those priorities on a daily basis, through the work of the CEC Secretariat.

The Article 14 process for citizen submissions on enforcement matters is working as intended. The CEC Secretariat has evaluated all of the submissions it has received in a fair and objective manner and pursued issues further where warranted. Furthermore, it had valid reasons for how it handled the submissions it declined to pursue -- concluding, for instance, that the NAFTA signatories did not intend for the CEC to second-guess decisions of national legislatures, and that the CEC should not be investigating a matter that was currently under review in a national court.

The BECC and NADBank are also operating as intended. Given the magnitude of the environmental infrastructure needed along the U.S.-Mexico border (which has been estimated in the range of $6-8 billion for the next decade), it is unrealistic to expect that the three governments could fund this infrastructure through grants. Thus, the BECC and NADBank were tasked with identifying projects that would be self-sustaining. Because there has been little experience with self-funding projects in many areas of the border region, the BECC and NADBank are currently working with those communities to assist them in designing such projects. Nevertheless, in less than two and a half years of operation, the BECC and NADBank have made impressive progress -- seven projects under construction now, and up to four more beginning construction in July 1997.

15. Assertion:

Even though the NAFTA has been in effect for over three years, the environmental situation -- particularly in the U.S.-Mexico border region -- has not improved, and may even have deteriorated.

Response

The environmental problems that currently exist in the U.S.-Mexico border region were decades in the making, and cannot realistically be corrected within two or three years. However, the three environmental institutions created by NAFTA are providing valuable tools to begin to address these problems (i.e., CEC, NADBank, BECC, etc.).

At the same time, Mexico has made progress with respect to enforcing its environmental laws, especially along the border. From 1992 through 1996, Mexico conducted 12,347 inspection and compliance verification visits in the border area, partially or totally closing 548 facilities, and fining 9,844 facilities. This represents a significant improvement over the number of visits conducted annually prior to NAFTA. In addition, between 1992 and 1996, 699 companies have signed up to participate in Mexico's Environmental Audit Program. Of those companies, 600 have completed the audit and developed implementation Action Plans, committing at least $800 million to environmental improvements. As a result of these and other efforts, Mexico reports the number of serious violations dropping, with a 72 percent reduction in serious violations in the maquiladora industry from 1993 to 1996, and a 43 percent increase in the number of maquiladora facilities in complete compliance.

Also off target is the assertion that NAFTA bears the blame for the environmental consequences of any increase in the number of maquiladoras along the border. The NAFTA's purpose is to eliminate the trade distorting elements of the maquiladora program by 2001. At the same time, the growth of maquiladoras has actually been faster in the non-border states of Mexico (maquiladora employment is up 28 percent in interior states versus 13 percent along the border in 1996). Recent growth in the absolute number of maquiladoras along the border, while potentially placing certain stresses on the region's environmental infrastructure (as is the case in many regions of the world with a heavy concentration of industry), is not the NAFTA's fault. But, the CEC, BECC and NADBank are providing for the first time important tools, coupled with increased Mexican enforcement of environmental laws and actions in some cases by companies, to address the related environmental problems.

The more pertinent question is what condition the border's environment would be in without NAFTA and its sister NAAEC. The NAFTA/NAAEC environmental institutions, and their reinvigoration of U.S.-Mexico border cooperation activities through the Border XXI program, have created a solid framework for tackling the region's longstanding problems.

16. Assertion

NAFTA's investor protections can be used to prevent signatory countries from even establishing their own environmental protection and public health laws, as evidenced by the suit the Ethyl Corporation filed against the Canadian government for its ban on the fuel additive MMT.

Response

The NAFTA investment chapter does not overrule or weaken individual countries' national, state or local laws, environmental or otherwise. The NAFTA does seek to eliminate discrimination based on an investor's nationality. Thus, the NAFTA does not prohibit governments from regulating foreign investors as they do domestic investors in order to protect consumers or the environment.

The fact that NAFTA has provided a system for resolving disputes between private foreign investors and host governments does not guarantee that all claims filed in that forum will have equal merit. NAFTA's dispute mechanism should be judged according to how cases are decided, not by what gets filed.

As for the Ethyl Corporation's Chapter 11 dispute with Canada, this case has only recently been initiated by Ethyl, and the arbitrators have not yet met with the parties nor made any decision. The United States Government is not a party to this case and thus is not in a position to comment on it nor has the United States endorsed the arguments that have been made.

17. Assertion

Some Hispanic Groups recently criticized the NAFTA on a number of grounds, including jobs losses and the implementation of NAFTA-TAA and the NADBank.

Response

With respect to the job loss assertions, their analysis makes no attempt to isolate effects associated with the NAFTA from other factors driving trade flows, such as the Mexican financial crisis, economic contraction and the U.S. economic expansion. Studies that have isolated the NAFTA's effects, such as the one done by DRI/McGraw Hill, find a positive effect on U.S. net exports, income and jobs.

In a particularly surprising result, the Hispanic Group review finds that all of the negative net trade impacts on employment are associated with Canadian trade (-39,117), while Mexican trade has had a modest positive impact on employment (+8,854). But the NAFTA could not have caused any significant job losses associated with Canadian trade, since U.S. reductions in trade barriers to Canada have been negligible (0.15 percent average tariff reduction) since NAFTA was signed and would have taken place even in the absence of the NAFTA.

Their analysis nowhere reflects the fact that Mexico has cut its tariffs five times as much as the United States since the NAFTA was signed, and the fact that the American market was already substantially open before NAFTA was signed. This leads to the spurious conclusion that the NAFTA has led to net U.S. employment losses in sectors where U.S. tariff reductions were close to zero and Mexican tariff reductions were many times larger.

Their analysis also assumes NAFTA-TAA certifications accurately measure job displacement caused by the NAFTA. As explained previously, certifications do not necessarily reflect either the impact of the NAFTA or actual job losses.

Their analysis also simply has the facts wrong. It claims that 50 percent of the total NAFTA-certified workers chose regular TAA, 15 percent opted for dual enrollment, and 10 percent entered NAFTA-TAA. In fact, only 33 percent of the NAFTA certified workers have entered training under NAFTA-TAA or regular TAA or both. This suggests that the large majority of certified workers do not lose their jobs, find new employment, or do not avail themselves of program benefits for other reasons.

Furthermore, their analysis states that new jobs and adequate training area not available to Hispanic workers dùe to language barriers or poorly targeted training under NAFTA-TAA. In fact, NAFTA-TAA provides for individualized programs, including training both in new occupational skills and in any language skills that may be required to secure new jobs.

In addition, their analysis claims that NAFTA-TAA leaves an entire class of eligible workers unserved because the application form fails to mention or include secondary workers. In fact, the NAFTA-TAA petition form specifically addresses workers at secondary firms whose jobs may be put at risk by a loss of business (as a supplier or assembler/finisher) with a firm associated with production or trade shifts to Mexico or Canada.

As to the NADBank, the Community Adjustment and Investment Program (CAIP), which was the focus of the criticism, is currently fully operational and considering applications from a number of areas throughout the country. Developing the CAIP took longer than expected, but there is the full commitment of the Administration to implement it expeditiously and correctly.

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RECEIVED: 19 SEP 97 17

TO: PETERSON, R

FROM: DAVIES

DOC DATE: 23 SEP 97
SOURCE REF:

KEYWORDS: INTL TRADE
LEGISLATIVE REFERRAL
AGRICULTURE

PERSONS:

SUBJECT: USTR TESTIMONY ON EXPORT EXPANSION & REPIPROCAL TRADE AGREEMENTS ACT OF 1997 / FAST TRACK

ACTION: RICE SGD MEMO

DUE DATE: 22 SEP 97 STATUS: C

STAFF OFFICER: EDDLEMAN

LOGREF:

FILES: WH NSCP: CODES:

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ACTION DATA SUMMARY REPORT

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001	LEE	Z	97091917	PREPARE MEMO DAVIES TO PETERSON
002	DAVIES	Z	97092314	FOR SIGNATURE
003		X	97092314	RICE SGD MEMO

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003	970923	PETERSON, R	

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DOC DATE: 19 SEP 97
SOURCE REF: AER204

KEYWORDS: INTL TRADE
LEGISLATIVE REFERRAL
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PERSONS:

SUBJECT: USTR TESTIMONY ON EXPORT EXPANSION & RECIPROCAL TRADE AGREEMENTS ACT OF 1997 - FAST TRACK

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STAFF OFFICER: LEE   LOGREF:

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THE WHITE HOUSE 6377

WASHINGTON

September 23, 1997

MEMORANDUM FOR RONALD K. PETERSON

SUBJECT: USTR Testimony on Export Expansion and Reciprocal Trade Agreements Act of 1997 -- Fast Track

NSC concurs with the subject testimony.

Edward A. R

Glyn T. Davies

for Executive Secretary

6377

URGENT

Total Pages: 9

LRM ID: AER204

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

Friday, September 19, 1997

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below

Ron Peterson

FROM: Ronald K. Peterson (for) Assistant Director for Legislative Reference

OMB CONTACT: Annette E. Rooney
PHONE: (202)395-7300 FAX: (202)395-5691

SUBJECT: **US Trade Representative Testimony on Export Expansion and Reciprocal Trade Agreements Act of 1997 (Fast Track)**

DEADLINE: **1:30 P.M. Monday, September 22, 1997**

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. **Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.**

COMMENTS: USDA is also testifying at this hearing. We circulated USDA's testimony earlier today (LRM AER 203). If you do not respond by the deadline, we will presume that your agency has no comment.

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LRM ID: AER204 **SUBJECT:** US Trade Representative Testimony on Export Expansion and Reciprocal Trade Agreements Act of 1997 (Fast Track)

RESPONSE TO
LEGISLATIVE REFERRAL
MEMORANDUM

If your response to this request for views is short (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet. If the response is short and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

You may also respond by:
(1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or
(2) sending us a memo or letter
Please include the LRM number shown above, and the subject shown below.

TO: Annette E. Rooney Phone: 395-7300 Fax: 395-5691
Office of Management and Budget
Branch-Wide Line (to reach legislative assistant): 395-6194

FROM: ______________________________ (Date)

______________________________ (Name)

______________________________ (Agency)

______________________________ (Telephone)

The following is the reponse of our agency to your request for views on the above-captioned subject:

_____ Concur

_____ No Objection

_____ No Comment

_____ See proposed edits on pages _________

_____ Other: ____________________

_____ FAX RETURN of _____ pages, attached to this reponse sheet

Statement of
Deputy U.S. Trade Representative Jeffrey Lang
Renewal of Fast Track Authority and U.S. Agriculture
House Committee on Agriculture
Subcommittee on General Farm Commodities

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear before you today to discuss the Administration's proposal to renew fast track negotiating authority and the President's tariff proclamation authority under the "Export Expansion and Reciprocal Trade Agreements Act of 1997."

Simply stated, this bill is vital to the future of American farmers, businesses and workers as well as fundamental to our position as a leader in the global economy. If enacted, the President's proposal would renew more than 60 years of cooperation between the Congress and the Executive Branch in the negotiation and implementation of market-opening trade agreements for the benefit of American agriculture and the entire economy.

Fast track is about more than economics. It is about American leadership. As the President said last week, fast track "is about whether other countries will continue to look to the United States to lead to a future of peace and freedom and prosperity; about whether the world will be growing together instead of coming apart; about whether our economic ties will lead to cultural ties and ties of partnership, or whether we will be viewed as somehow withdrawn from the world, not interested in leading it, and therefore, not nearly as influential as we might otherwise be for the causes in which we so deeply believe."

Agricultural Exports and the U.S. Economy

Mr. Chairman, the contributions of agricultural exports to the U.S. economy are impressive and bear repeating: a record $60-billion in exports last year and the largest positive trade balance--$27 billion--of any sector. The total contribution to U.S. economic activity from 1996's agricultural exports is estimated by USDA at around $140 billion, and farm exports created close to one million jobs here at home.

It's not surprising, then, that America's farmers and ranchers are twice as reliant on foreign trade as the U.S. economy as a whole, with exports accounting for an estimated 30 percent of gross cash receipts. Dollar for dollar, the United States exports more grains and soybeans than airplanes, ships, and boats combined. We export more corn than coal, more wheat than steel, more meat than aluminum, and more fruits and vegetables that CD's, records, and tapes.

Viewed in this light, the critical importance of creating new market opportunities for agriculture is clear. Last year's farm bill--the FAIR Act--signaled a shift away from government support for farm income to market returns. Under these circumstances, access to foreign markets is critical to maintain farm income. If approved, fast track authority would give us a powerful tool to break down barriers to U.S. agricultural exports. Successful use of this authority would give U.S. producers greater opportunity to respond to market demands and benefit from market returns, two fundamental pillars of the FAIR Act.

Fast Track Provides for Future Export Growth

For farmers and the agriculture industry, trade means jobs. Farmers today face a simple dilemma: each year, the combination of hard work and technological innovation make American farmers more productive. At the same time, the US population is relatively stable. The only way to ensure that prices stay strong and farmers and ranchers stay in business is to continue to expand markets outside the United States. Because 96% of the worlds' population lies outside the United States, this shouldn't be a problem, but we need Fast Track to get access to this huge segment of the world's population.

We need to continue the successes of past market opening agreements. The Uruguay Round Agreements and the NAFTA made a solid start in liberalizing world trade by reducing export subsidies, putting in place disciplines over certain types of trade activity, and establishing a working dispute settlement mechanism. Despite this progress, foreign agriculture remains one of the most protected and subsidized sectors of the world economy. And because our farmers are among the least protected and subsidized and most competitive in the world, trade distortions in agriculture are a particular problem for the United States.

We still have a lot of work to do in removing barriers to U.S. agricultural exports and addressing unfair competition from other countries. Fast track negotiating authority was essential to achieving our past successes; it's no less critical to meeting our goals for further trade liberalization.

Our Goals for Fast Track in Agriculture

The bill the President delivered to Congress on Tuesday contains specific negotiating objectives for agriculture. It covers market access barriers, unfair subsidies, improving international rules and disciplines on state trading enterprises, sanitary and phytosanitary regulations, including biotechnology, and strengthening the rules on such practices as tariff rate quotas. Frankly, the agriculture section of the President's fast track bill is the strongest in history.

We need to ensure that other countries live up to their commitment to negotiate further agricultural trade reforms in the World Trade Organization starting in 1999. The United States insisted on this commitment at the end of the Uruguay Round and it would be unfortunate if our reluctant trading partners got off the hook because we couldn't come to the table. This is the only way for us to address high tariffs and trade-distorting subsidies.

To prepare properly for the 1999 negotiations, we need to begin building consensus now for moving our agricultural agenda forward. That means we must begin to lay the ground-work for reducing tariffs to US agriculture exports, disciplining state trading enterprises, developing consensus for scientifically justified rules governing biotechnology products, and strengthening rules on the administration of tariff rate quotas. Let me talk briefly about each.

- *We will press for global tariff-reduction on agricultural products.* The U.S. has on average the lowest tariffs in the world (around 3 percent) while the world average is 56 percent. Across the board tariff reductions will greatly benefit US producers, and Fast Track is essential to make this happen.

- *We will press for transparency and improved disciplines on STEs*: The United States has much to gain from disciplining STEs. STEs distort trade and frequently operate behind a veil of secrecy. They allow some countries to undercut US exports into third markets and restrict imports. Fast Track negotiating authority will help us instill transparency and discipline in the system which help ensure increased market access for U.S. exports.

- *We will negotiate improved rules in the area of Genetically Modified Organisms*: The United States leads the world in developing GMOs and is poised to capture a larger share of the global agricultural marketplace because of increased efficiencies and improved product lines. Other countries, most notably those in Europe, threaten to adopt policies regarding the importation and planting of GMO's and the labeling of products containing GMO's that are not based on scientifically-justified principles. If producers and consumers in the United States and around the world are to enjoy the benefits of this new technology, our negotiators need the authority to build consensus in international fora for basing GMO regulations on scientifically-justified principles. If we do not have that authority other countries will take the opportunity to build consensus in ways contrary to U.S. interests.

- *Strengthen the rules on the administration of tariff rate quotas*: In the Uruguay Round, many countries converted their non tariff trade barriers to tariff rate quotas (TRQ's). TRQ's provide increased market access within in a defined import quota. Our goal over time is to negotiate increases in the size of TRQ's. However, we are faced with many cases of countries administering their TRQ's in a way that substantially or completely restricts access. We will use fast track authority to negotiate improved rules for TRQ's to enure that countries that commit to improved access cannot fall back on restrictive administrative procedures.

Fast Track authority will also give us the ability to go after promising opportunities for agriculture through regional arrangements with countries in Asia, Latin America and Africa. There are already more than 30 bilateral and regional trade agreements operating here in the Western Hemisphere, and the United States is only party to one--NAFTA. While these preferential agreements multiply, the U.S. share of the Western Hemisphere's total agricultural imports is actually declining.

We also need Fast Track to allow us to benefit from trade liberalization among the 18-member APEC group. Reducing tariffs in the fastest-growing countries of the Pacific Rim could provide a dramatic boost to U.S. exports of consumer-oriented products.

The Dangers of Inaction

There are serious and immediate consequences if we do not renew this authority. Major trade agreements are being negotiated without our participation. In every region of the world, but particularly Latin America and Asia, governments are pursuing strategic trade policies and, in some cases, preferential trade arrangements. They are forming relationships around us rather than with us, and they are creating new exclusive trade alliances to the detriment of U.S. interests. I can assure you that our trading partners are not waiting for us.

Let me cite three examples:

- Argentina, Brazil, Paraguay, and Uruguay have formed a common market, MERCOSUR, which has a GDP of over $1 trillion and ambitions to expand. MERCOSUR is the largest economy in Latin America and encompasses a population of 200 million. It has struck agreements with Chile and Bolivia, and is discussing agreements with a number of Andean countries as well as countries within the Caribbean Basin. There are also recent press reports that the EU intends to sign a free trade deal with Mercosur by 1999.

- Canada recently signed a new trade agreement with Chile, giving Canadian exporters substantial advantages in comparison with their U.S. counterparts and just last week Canada and the EU both announced their intention to enter into trade agreements with MERCOSUR.

- Chile, one of South America's leading economies, has signed trade agreements with Bolivia, Colombia, Ecuador, Mexico, Venezuela, Canada and the MERCOSUR states. Indeed, Chile has preferential trading relationships with every major trading partner in our hemisphere but one -- the United States. The EU has also concluded a framework agreement with Chile which may lead to a free trade agreement.

The consequences of agreements being reached without us are not just theoretical; they are quite real. Many U.S. firms are experiencing the competitive disadvantage resulting from preferential agreements that do not include us. Our companies are losing export opportunities. Our past efforts to level the playing field will prove futile over the long-term if we begin to cede this ground to our competitors. Examples abound:

- On a host of important U.S. agricultural exports, our producers face tariffs of 8 percent to 20 percent on shipments to MERCOSUR, while MERCOSUR members trade tariff-free amongst themselves on most products.

- The Washington Apple Commission and the Oregon-Washington-California Pear Bureau have identified Columbia, Venezuela, Peru and Ecuador as potential growth markets. But these countries currently impose import duties of 15 percent to 25 percent on U.S. apples and pears while imports from Chile face little or no duty.

- Chile's bilateral agreement with Ecuador has put U.S. wine at a considerable disadvantage. U.S. wine faces a 25 percent tariff versus no duty for Chilean wine.

The danger of inaction in Latin America, and in other regions where free trade agreements are being signed, is the danger of lost opportunity for U.S. agriculture. We risk losing out increasingly to others in our own backyard, not because they are more efficient producers, but because they are party to trade agreements that put the United States at a commercial disadvantage. We need fast track authority as an important tool to level the playing field for U.S. agriculture in regional trade agreements and in agreements negotiated in the WTO.

The Export Expansion and Reciprocal Trade Agreements Act of 1997

The President's bill calls for the reactivation of the long-standing partnership between the Congress and the President in trade negotiations. The President's proposal ensures that the Congress is fully integrated into the formulation of U.S. goals, strategies, and decision-making for each trade negotiation subject to fast track procedures.

The proposal first sets out ***overall*** and ***principal*** trade negotiating objectives for the President. The ***overall*** objectives call on U.S. negotiators (1) to obtain more open, equitable, and reciprocal market access; (2) to obtain the reduction or elimination of barriers and other trade-distorting policies and practices; (3) to further strengthen the system of international trading disciplines and procedures; (4) to foster economic growth, raise living standards, and promote full employment in the United States and to enhance the global economy; and (5) to address those aspects of foreign government policies and practices regarding labor, the environment, and other matters which are directly related to trade and decrease market opportunities for United States exports or distort United States trade.

The ***principal*** objectives specify that U.S. negotiators should seek (1) to reduce or eliminate trade barriers or trade distortions, including government policies and practices directly related to trade that decrease market access for U.S. exports or that distort U.S. trade; (2) to reduce foreign government barriers that discriminate against or impose unreasonable regulatory barriers on U.S. services providers; (3) to reduce unreasonable barriers to U.S. foreign investment; (4) to obtain adequate and effective protection for U.S. intellectual property rights and increased access to foreign markets for U.S. businesses that rely on intellectual property; (5) to make the proceedings of international trade bodies more open to public view; (6) to secure fairer and more open conditions of trade for U.S. agricultural products; and (7) to promote through the World Trade Organization internationally recognized worker rights and sustainable development.

In order for an agreement to qualify for fast-track treatment under the bill, the President must comply with stringent notice and consultation requirements. These provisions enable the Congress to set priorities, provide advice, and exercise oversight at all stages of the negotiations. They ensure that Congressional views will be reflected both in any final agreement and in the manner in which an agreement is to be carried out.

I am particularly aware of the shared commitment between this Committee and the Administration in support of expanding agricultural exports. The proposal's consultation requirements will build on this solid base of ongoing cooperation. Under the proposal, the President must provide notice to Congress before initiating negotiations, and he must consult with Congress during the course of negotiations. Members of Congress and their staff are to be named as advisers to U.S. negotiating delegations. These Congressional advisers will be apprised of all critical phases of the negotiations, and they will have input into our strategy and offers. When negotiations near completion, the President must notify Congress of his intention to enter into an agreement and, once the agreement is signed, the President must describe to Congress how he intends to implement the agreement. Finally, the President and the Congress are to receive advice on any proposed agreement from the International Trade Commission.

To strengthen these provisions, we have added further consultation requirements. The bill mandates that, prior to entering into negotiations, the President must describe his specific negotiating objectives. In addition, the President is required to inform Congress of any other agreements he intends to conclude with the country or countries in question in addition to the trade agreement itself. In addition, he must state whether the fast track agreement will require additional implementing legislation that can be enacted only outside the fast track process.

Most importantly, Congress must be satisfied that the President has met his consultation obligations, and, if Congress finds that the President has not done so, an expedited procedure is available for Congress to withdraw fast track procedures.

The proposal also expands on existing provisions ensuring that the public is informed of trade negotiations and that a mechanism is available for ensuring that the public can make its views known to U.S. negotiators. The proposal calls for the President and Congress to receive advice from officially-designated advisory committees covering the full range of sectors and policy matters, including agricultural products.

Conclusion

Mr. Chairman, no sector of our economy has more at stake in expanding exports than agriculture. The continuing profitability and viability of U.S. agriculture -- its very future -- depends on the ability of U.S. producers to be competitive in a world market. In the face of unprecedented opportunities and challenges, continuing bipartisan collaboration between the Administration and Congress toward a bold, comprehensive trade and export strategy will ensure America's leadership in the global food and agricultural markets of the future.

The President's fast track proposal ensures that the Congress will be a full partner in setting negotiating objectives, establishing trade priorities, and in gaining the greatest possible benefits through our trade agreements. This collaboration will strengthen both America's effectiveness and leverage at the bargaining table.

The successes we have achieved in opening up markets for U.S. agriculture are many, but new problems and restrictions are before us. We must use every tool in our arsenal to ensure that the rules that emerge from on going international negotiations reflect our interests and our values. Fast track authority is one of the most important tools. U.S. leadership is essential if we are not only to maintain, but enhance our competitive position.

As the President Clinton said last week: "Walking away from this opportunity will not create a single job. No one suggests we should throw up greater barriers in our own marketplace. Walking away from this opportunity will only leave inequalities in place -- inequalities that do not work to the advantage of either American businesses or American workers."

With renewal of fast track authority, we can continue to open new opportunities for agriculture; maintain the U.S. leadership role in initiating and writing new agreements; and better secure our economic future here in our own hemisphere. Without fast track, we could find ourselves in the marketplace of the 21st century playing by European, or Asian, or Latin American rules, and it is very unlikely that these rules will be written to expand substantially market access opportunities for U.S. agriculture.

I look forward to continuing our work with you and other Members on fast track.

7

THE WHITE HOUSE

WASHINGTON

September 22, 1997

ACTION

MEMORANDUM FOR GLYN T. DAVIES P for

THROUGH: ROBERT D. KYLE RK

FROM: LINDA EDDLEMAN LNE

SUBJECT: USTR Testimony on Export Expansion and Reciprocal Trade Agreements Act of 1997 -- Fast Track

Attached for your signature at Tab I is a memorandum for Ronald Peterson conveying NSC/NEC concurrence on USTR Testimony on Export Expansion and Reciprocal Trade Agreements Act of 1997 -- Fast Track. **Concurrence telephoned-in to USTR on September 22.**

LE for AS for RR

Concurrence by: Will Davis, Alan Kreczko and Richard Ragan

RECOMMENDATION

That you sign the memorandum to Ronald Peterson at Tab I.

Approve ✓ Disapprove ____

Attachment

Tab I Davies Memo to Peterson

Tab II Incoming