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JOINT ECONOMIC COMMITTEE
U.S. CONGRESS

FAX TRANSMITTAL SHEET

DATE:

DESTINATION:

TO: Tom O'Donnell
Name

Organization

Telephone

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Fax

ORIGINATOR:

FROM: Rick McGahey
Name

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Dirksen Senate Office Building
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Washington, D.C. 20510

Fax: (202) 224-0240

Telephone: (202) 224-5171

Number of Pages Including Cover: 3

COMMENTS: Dorgan release: considerably stronger than actual study. I don't think response is necessary/warranted.

JOINT ECONOMIC COMMITTEE
U.S. CONGRESS

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NEWS FROM

U.S. Senator North Dakota

Byron L. Dorgan

U.S. Senate Washington, D.C. 20510-3405 202 224-2551

FOR IMMEDIATE RELEASE
Thursday
December 1, 1994

Contact: Barry Piatt
or Becky Fleischauer
PHONE: 202-224-2551

"DORGAN RELEASES STUDY WHICH SHOWS NAFTA COST U.S. 10,000 JOBS SAYS GATT IS MORE OF THE SAME"

(WASHINGTON, D.C.) --- A new congressional study, released Thursday by U.S. Senator Byron Dorgan (D-ND), has concluded that implementing the North American Free Trade Agreement (NAFTA) caused a net loss of 10,000 American jobs during the first nine months of 1994.

The study, which was prepared by the congressional Joint Economic Committee (JEC), was requested by Dorgan, who serves on the committee. It concluded that while increased exports to Mexico have created jobs during the first nine months of 1994, changes in the overall trade balance with Mexico have resulted in a net loss of 10,000 U.S. jobs since NAFTA went into effect because of an even larger increase in imports to the U.S. from Mexico.

Further, the study found that NAFTA has not increased U.S. employment but rather it has increased global access to Mexico's low wage labor supply. The study cited growing shipments of capital goods and production inputs to Mexico from the U.S. and other foreign countries, and the rapidly rising imports of finished products from Mexico to the United States.

"Proponents of NAFTA who've been boasting in recent months that the U.S. - Mexico trade agreement has substantially boosted U.S. exports to Mexico have failed to provide the whole story to the American people," Dorgan said Wednesday.

He said he asked for the JEC staff study because he wanted to understand what the net impact is on jobs as a result of NAFTA. "While the study is cautious in its conclusions," Dorgan said, "when you look at the picture of, not only U.S. exports to Mexico, but the Mexican imports to the United States, you find that the U.S. trade surplus with Mexico has declined and that the full picture shows that we've lost jobs -- not gained jobs -- as a result of NAFTA."

-- more --

Dorgan said those who are now boosting the General Agreement on Tariffs and Trade (GATT) agreement, which will be voted on Thursday, in the U.S. Senate are making the same failed claims that they made about NAFTA. "While we only have nine months experience with NAFTA it's important to note that what little experience we have confirms the worst fears that some of us had that this was, if not a giant sucking sound, still a steady drain of American jobs to Mexico."

"Those who purport to give information about the U.S. trade situation need to start providing the American people with the whole picture, not just selected bits that would lead someone to reach a conclusion that is directly the opposite of the conclusion one would reach if they had all of the information."

The fact is "NAFTA and GATT are trade agreements that make it easier for American jobs to go where labor is cheap," Dorgan said. "They mean fewer jobs and lower income in the U.S. It's a bankrupt trade strategy that weakens our country but strengthens corporations who want to employ cheap labor elsewhere and ship their goods here."

"We need more jobs and decent income," Dorgan said. "That's what the NAFTA debate was about, and that's what the GATT debate is about. And I hope that members of the Senate will review this study and understand its consequences on a broader scale as it relates to the GATT trade agreement."

-- END --

JOINT ECONOMIC COMMITTEE
U.S. CONGRESS

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Number of Pages Including Cover: 10

COMMENTS: Questions — call Rick McGahey

JEC Staff Analysis of 1994 U.S. - Mexico Trade Data: NAFTA Impacts

Summary

The analysis presented here suggests that claims to the effect that the North American Free Trade Agreement (NAFTA) has unambiguously resulted in substantial job creation cannot be supported with the data available at this time.

> On the contrary, the interim data available indicates that in terms of net job creation NAFTA has been, at best, a wash.
>
> In fact, the new figures on net exports presented here suggest that on balance, up to 10,000 jobs may have been eliminated as a result of the combined effects of increasing domestic exports and increasing domestic consumption of imports from Mexico.

Supporters of the General Agreement on Tariffs and Trade (GATT) have cited the U.S. experience under the first nine months of the NAFTA to support claims that such trade agreements result in net job creation in the U.S. In an earlier study, the Joint Economic Committee suggested that predictions of substantial job gains may be exaggerated.

This report is based on a new analysis of data on U.S. trade with Mexico, through September of 1994. It begins by pointing out that while exports do create jobs, jobs are also eliminated by increased imports. Further, a significant portion of the growth in exports has occurred in products that are imported into the U.S. and then re-exported to Mexico, so-called transshipments or foreign exports. Typically transshipments through the U.S. incorporate little additional value.

Therefore a more accurate measure of the overall effect of U.S. trade with Mexico is the level of net exports, which is calculated by taking *domestically produced exports* and then subtracting *imports used for consumption.* As shown in Table 1, US net exports to Mexico have <u>declined</u> by approximately $500 million since NAFTA took effect on January 1, 1994.

Given the growth rate of the economy at the present time, and the fact that its level is largely a result of a number of domestic factors, it is difficult to precisely define the effects of NAFTA on our domestic economy.

In general we are reluctant to make specific claims as to the job effects of a particular policy given that a number of macroeconomic factors can influence labor market conditions and outcomes. In the case of increased trade with Mexico under NAFTA it is too early to make a compelling case one way or the other at this point. It will take at least five to ten years for the full effects of the agreement to manifest themselves.

Issues

Proponents of the North American Free Trade Agreement predicted that thousands of jobs would be created by 1995 as a result of the agreement. Since NAFTA's implementation some analysts have claimed support for these predictions in estimates of jobs already created by increased exports to Mexico.[1]

> It is interesting that this claim is being advanced at a time that the U.S. Dept. of Labor's Office of NAFTA Trade Adjustment Assistance (NAFTA-TAA) has certified 10,000 workers for adjustment assistance.[2]

This analysis summarizes U.S. trade data with Mexico through the first nine months of 1994. It provides a preliminary and partial perspective on the effects of NAFTA on the U.S. This analysis will show that while increased exports have created jobs during the period, changes in the overall trade balance have resulted in a net deficit of 10,000 U.S. jobs since the agreement went into effect.

Finally, this analysis demonstrates that NAFTA has not increased U.S. employment, but rather increased global access to Mexico's low-wage labor supply, as reflected in growing shipments of capital goods and production inputs to Mexico, from the U.S. and foreign countries, and rapidly rising imports of finished products from Mexico to the U.S.

Further, this analysis also identifies four problems with previous analyses of the effects of the NAFTA.

- Estimates of job growth associated with increased exports are less than half the story. The overall effect of trade on employment is determined by the difference between exports (which create jobs) and imports (which eliminate jobs).

- The standard measure of imports and exports, the merchandise trade balance, should not be used to examine the effects of trade between two countries on employment, because this measure includes exports that are produced in other countries and transshipped to Mexico. Goods imported from other countries and re-exported elsewhere generate very few jobs in shipping and handling, and none in production. Such foreign exports of goods produced elsewhere increased

---

[1] See, for example, *Orlando Sentinel* editorial (Nov. 11, 1994) titled "Trade a Strong Suit," which argues that the General Agreement on Tariffs and Trade should be passed on the "free-trade success story of the United States, Mexico and Canada." See also, Remi L. Wrona, "Ratification Would Bring Enormous Benefits to U.S.", *St. Louis Post-Dispatch* (Nov. 18, 1994), which claims that "This increase in [U.S.] export[s to Mexico] could support up to an estimated 100,000 new jobs in 1994. These are high-skill, high-paying jobs in sectors like auto, machinery and computers."

[2] U.S. Dept. of Labor, Office of NAFTA Trade Adjustment Assistance, reported that as of Sept. 26, 1994 workers at 240 firms in 37 states had petitioned for adjustment assistance. Decisions had been made on 211 petitions, of which 100 plants have been certified for assistance. 3 additional applications will be amended. 9,882 workers have been certified to receive assistance and approximately 19 additional workers will be certified in the amended petitions.

dramatically in 1994. While the published merchandise trade balance increased by 2.5% in the first three quarters of 1994, compared to the same period last year, the level of net exports (excluding the foreign exports identified above) **declined** by 27% in the same period.

- Changes in U.S. trade with Mexico since NAFTA was implemented on January 1, 1994 have resulted in a net loss of U.S. jobs, on the basis of the estimates presented in this analysis. Predictions of large job gains in several pro-NAFTA studies have not yet been fulfilled.[3] Recent discussions of export-related job gains distort the issue by looking only at jobs created, but not at those jobs which have been destroyed.

- The NAFTA-TAA certified displaced workers are only the tip of the job displacement iceberg. The analysis presented here shows that 137,000 jobs have been eliminated by the growth of imports from Mexico since January 1. Many of these are jobs that would have been created in industries such as autos that have experienced rapid growth in demand which has been met by expanding production in Mexico, rather than opening new or previously closed plants in the U.S.[4]

Background

The Commerce Department's monthly news releases on the merchandise trade balance show a slight increase in the U.S. trade surplus with Mexico this year. But, the merchandise trade balance is a biased and misleading tool for analyzing the effects of trade between two countries because it includes goods that are produced in other countries and transshipped through the U.S. to Mexico.

> Examples include General Motors cars built in Spain and sold in Mexico, and capital goods purchased abroad, imported into the U.S. and then re-exported to Mexico. The products are exported in substantially the same condition as they were imported.
>
> Such Foreign Exports inflate the U.S. trade surplus, but have no significant effect on U.S. employment or job creation (see Table 2, line 5, and Table 3).
>
> > Although these foreign exports (transshipments) are only 3% of total U.S. exports to Mexico, they have increased by 32% in the first three quarters of 1994.

---

[3] 16 NAFTA models are reviewed in a JEC Staff Study, "Potential Impacts of NAFTA: An Assessment of the Debate", October 1993. Six of these models predict net job gains from 220,000 to 2.8 million jobs (Staff Study at pp. 10, 11 and 25).

[4] Personal consumption expenditures on motor vehicles and parts increased by 7.7% in the first three quarters of 1994, as compared to the same period of 1993 (*Economic Indicators*, October 1994, p. 4). However, net exports of vehicles and parts from Mexico decreased by 18.4%, according to the Commerce Dept. data reviewed in this analysis. The U.S. had a net export deficit of $1.507 billion in vehicles and parts with Mexico through September, 1993. This deficit increased to $1.785 billion in 1994.

A Better Measure

A more accurate measure of the effects of our trade with Mexico is Net Exports, which are equal to domestic exports less imports for consumption. This measure removes foreign exports and imports not for current U.S. consumption from the trade balance.

> The U.S. merchandise trade balance with Mexico increased by 2.5% through September (Table 2, line 8), but net exports actually decreased by 27%, or $483 million in 1994 (Table 2, line 7). Clearly, the merchandise trade balance would be a misleading measure if used to estimate the domestic employment impacts of the NAFTA.

Implications

1. *Employment*

The employment effects of trade are estimated by using a rough estimate that each $1 billion in exports (imports) increases (decreases) employment by 20,000 jobs.[5] Increased domestic exports to Mexico have created approximately 127,000 jobs, while increased imports for consumption into the U.S. have destroyed 137,000 jobs. This means the decline in net exports has reduced U.S. employment by 10,000 jobs.

Many economists predicted that NAFTA would generate significant overall employment gains for the U.S., but these have yet to materialize.[6] Significant job displacement and a small net employment loss has resulted, to date. As shown below, the U.S. is exporting raw materials and parts to Mexico, and importing final products of greater total value.

2. *Industries*

High-wage manufacturing jobs have been eliminated in many industries by the growth in imports from Mexico. NAFTA has reduced net exports and employment in electronic equipment (e.g. TVs), transportation equipment (autos), scientific instruments (medical equipment) and furniture and fixtures; net exports and employment have increased in food products, chemical products, rubber products and fabricated metal products (including automotive engines), as shown in Table 4. Generally, U.S. losses are concentrated in industries that make final products, while gains are concentrated in sectors that make inputs to production.

---

[5] Davis, Lester A., 1992, U.S. Department of Commerce, Economics and Statistics Administration, "U.S. Jobs supported by Merchandise Exports to Mexico".

[6] See footnote 3, above.

3. *U.S. Transshipments (Foreign Exports)*

This analysis raises questions about the reasons for the rapid growth of transshipments of products from other countries to Mexico. The largest increases have been in non-electrical machinery (capital goods) and transportation equipment (autos). While the reasons for these increases are not known with certainty, possible explanations include superior U.S. port and distribution facilities and reduced tariffs on products imported into Mexico through the U.S., because of tariff reductions for U.S. goods in the NAFTA. NAFTA Rules of Origin limit transshipment of products in order to avoid tariff liabilities.

Qualifications

Some analysts may object to the suggestion that NAFTA caused the trade changes discussed in this report.

> The overall U.S. deficit on merchandise trade increased by 28% through the first three quarters of 1994. In addition, the Mexican economy has grown slowly this year (3.8% in the 2nd quarter). If growth in Mexico picks up, U.S. exports to Mexico could increase faster in the future, improving the U.S. trade balance.
>
> However, total U.S. imports have increased by only 13.2% this year, versus an increase in imports for consumption from Mexico of 24.3%. In addition, the Peso is overvalued. If the Peso is allowed to decline then the trade balance will decline.[7]

Note that the data in the attached tables were obtained from the Commerce Department's Trade Policy Information System (COMPRO). It contains the most up-to-date trade statistics available at the level of detail shown here. Totals for prior years differ slightly from those published in Commerce Department News releases because COMPRO includes revisions for prior years and the News releases do not. Revisions are more common in export data. Therefore the net trade measures for 1994 (lines 7 and 8, Table 2) are likely to increase slightly (by about $50 million) when final revisions have been made -- this reflects a small but consistent bias in these data.

[7] On April 27, 1994 the U.S. and Canada created a permanent $7 billion credit line to support the Peso, which indicates that market forces would otherwise cause it to decline. (*Dallas Morning News*, April 27, 1994, p. 1D).

Table 1, U.S. Net Exports to Mexico

Year-to-date 1993 and 1994 (thousands of dollars)	Partial year data (January thru Septemb		Change	
	1993	1994	($thous.)	(percent)
Net Exports				
Domestic exports less Imports for Consumption	1,788,057	1,305,463	-482,594	-27.0%

Table 2, U.S. Trade with Mexico

1990 thru September, 1994
(thousands of dollars)
totals for all commodities

	year 1990	year 1991	year 1992	year 1993	Partial year data (January thru September) 1993	Partial year data (January thru September) 1994	Change ($thous.)	Change (percent)
1. Imports for consumption	29,505,962	30,445,131	33,934,561	38,667,664	28,156,793	34,992,924	6,836,131	24.3%
2. Imports not for consumption (general imports less imports for cons.)	666,331	749,161	1,249,588	1,261,992	962,195	732,522	-229,673	-23.9%
3. General imports	30,172,293	31,194,292	35,184,149	39,929,656	29,118,988	35,725,446	6,606,458	22.7%
4. Domestic exports	27,467,595	32,279,218	39,604,899	40,265,478	29,944,849	36,298,387	6,353,538	21.2%
5. Foreign exports	907,872	996,562	992,552	1,370,017	925,306	1,222,823	297,517	32.2%
6. Total exports	28,375,468	33,275,780	40,597,451	41,635,494	30,870,155	37,521,210	6,851,055	21.5%
7. Net Exports (4 - 1)	-2,038,367	1,834,087	5,670,338	1,597,813	1,788,057	1,305,463	-482,594	-27.0%
8. Merchandise Trade Balance (6 - 3)	-1,796,826	2,081,488	5,413,302	1,705,839	1,751,167	1,795,763	44,596	2.5%

Table 3, U.S. Foreign Exports to Mexico

	Partial year data (January thru September) 1993	1994	Change ($thous.)	(percent)
Total all commodities	925,306	1,222,823	297,517	32.2%
35--Machinery, except electrical	*188,760*	*317,039*	*128,279*	*68.0%*
37--Transportation equipment	*118,130*	*218,927*	*100,197*	*84.8%*
39--Miscellaneous manufactured commodities	25,095	68,502	43,407	173.0%
36--Electrical & electronic mach. equip. & supplies	310.816	343.155	32,339	10.4%
38--Scientific & prof instr; photograph & opt gds etc	54,281	64,745	10,464	19.3%
28--Chemicals and allied products	21,184	28,930	7,746	36.6%
33--Primary metal products	11,418	18,802	7,384	64.7%
30--Rubber and miscellaneous plastics products	30,971	34,660	3,689	11.9%
26--Paper and allied products	4,709	6,260	1,551	32.9%
21--Tobacco manufactures	210	1,613	1,403	668.1%
29--Petroleum refining and related products	135	1,339	1,204	891.9%
25--Furniture and fixtures	2,607	3,689	1,082	41.5%
3X--Manufactured commodities not identified by kind	1,806	2,791	985	54.5%
22--Textile mill products	4,263	5.140	877	20.6%
02--Livestock and livestock products	472	1,259	787	166.7%
32--Stone, clay, glass, and concrete products	4,941	5,238	297	6.0%
09--Fish, fresh or chilled; and other marine products	14,701	14,887	186	1.3%
24--Lumber and wood products, except furniture	2,428	2,564	136	5.6%
14--Nonmetallic minerals, except fuels	796	805	9	1.1%
10--Metallic ores and concentrates	3	8	5	166.7%
99--Special classification provisions, nspf	594	555	-39	-6.6%
08--Forestry products, nspf	129	79	-50	-38.8%
91--Scrap and waste	396	148	-248	-62.6%
13--Crude petroleum and natural gas	974	676	-298	-30.6%
12--Bituminous coal and lignite	396	67	-329	-83.1%
27--Printing, publishing, and allied products	1,966	1,611	-355	-18.1%
92--Used or second-hand merchandise	6,051	4,983	-1,068	-17.6%
23--Apparel and related products	17,890	16,007	-1,883	-10.5%
31--Leather and leather products	8,123	6,230	-1,893	-23.3%
01--Agricultural products	10,786	4.053	-6,733	-62.4%
34--Fabricatd metl prod exc mach & transp equipment	49,335	39.750	-9,585	-19.4%
20--Food and kindred products	30,939	8,907	-22,032	-71.2%

Table 4, U.S. Net Exports to Mexico

	Partial year data (January thru September) 1993	1994	Change ($thous.)	(percent)
Total all commodities	1,788,057	1,305,463	-482,594	-27.0%
36--Electrical & electronic mach, equip, & supplies	-1,587,514	-2,849,358	-1,261,844	79.5%
13--Crude petroleum and natural gas	-3,027,457	-3,341,810	-314,353	10.4%
38--Scientific & prof instr; photograph & opt gds etc	404,878	102,361	-302,517	-74.7%
25--Furniture and fixtures	-152,749	-364,642	-211,893	138.7%
98--Special classification provisions, nesoi	-957,865	-1,109,989	-152,124	15.9%
37--Transportation equipment	-1,062,638	-1,205,159	-142,521	13.4%
23--Apparel and related products	-968,159	-1,076,908	-108,749	11.2%
39--Miscellaneous manufactured commodities	-108,899	-173,811	-64,912	59.6%
24--Lumber and wood products, except furniture	130,940	89,004	-41,936	-32.0%
33--Primary metal products	536,206	498,762	-37,444	-7.0%
35--Machinery, except electrical	2,264,712	2,237,129	-27,583	-1.2%
09--Fish, fresh or chilled; and other marine products	-105,162	-130,803	-25,641	24.4%
32--Stone, clay, glass, and concrete products	-178,235	-200,851	-22,616	12.7%
99--Special classification provisions, nspf	-126,057	-148,418	-22,361	17.7%
31--Leather and leather products	-121,581	-138,925	-17,344	14.3%
10--Metallic ores and concentrates	-14,243	-29,958	-15,715	110.3%
14--Nonmetallic minerals, except fuels	-27,319	-36,482	-9,163	33.5%
12--Bituminous coal and lignite	8,854	8,687	-167	-1.9%
08--Forestry products, nspf	923	6,755	5,832	631.9%
91--Scrap and waste	17,747	27,515	9,768	55.0%
21--Tobacco manufactures	10,797	27,454	16,657	154.3%
92--Used or second-hand merchandise	99,869	118,739	18,870	18.9%
27--Printing, publishing, and allied products	134,864	178,494	43,630	32.4%
29--Petroleum refining and related products	265,074	308,807	43,733	16.5%
02--Livestock and livestock products	-167,095	-115,803	51,292	-30.7%
22--Textile mill products	387,749	470,625	82,876	21.4%
20--Food and kindred products	784,196	964,476	180,280	23.0%
26--Paper and allied products	959,197	1,150,991	191,794	20.0%
3X--Manufactured commodities not identified by kind	1,142,345	1,394,781	252,436	22.1%
01--Agricultural products	24,337	277,514	253,177	1040.3%
34--Fabricatd metl prod exc mach & transp equipment	681,757	999,693	317,936	46.6%
30--Rubber and miscellaneous plastics products	893,735	1,298,617	404,882	45.3%
28--Chemicals and allied products	1,644,851	2,067,979	423,128	25.7%

MEMORANDUM

file
NAFTA sweetener
followup

COUNCIL OF ECONOMIC ADVISERS

September 23, 1993

TO: LAURA D'ANDREA TYSON

FROM: ERIK LICHTENBERG EL

SUBJECT: STATUS OF SWEETENER DEFINITION IN NAFTA

Corn syrup is currently not included in the definition of sweeteners under NAFTA. However, the US sugar industry is exerting a lot of pressure to change this, and it is on the list of items for which Ambassador Kantor is looking for creative solutions. The background on this issue is as follows.

- The US currently supports sugar production by restricting imports to maintain sugar prices above world levels.

- NAFTA provides for a phased incorporation of Mexico into the US sugar program.

- Mexico is currently a net importer of sugar. Its per capita consumption is quite high, mainly because of extremely high per capita consumption of soft drinks.

- High sugar prices in the US have led soft drink manufacturers to substitute corn syrup for sugar. At present, all soft drinks in the US are made with corn syrup.

- Under NAFTA, Mexican sugar prices will rise to the US level, which has recently been about 45% higher than the market price in Mexico. High sugar prices will create a significant incentive for soft drink manufacturers to switch to corn syrup, just as they have in the US.

- One effect of switching to corn syrup could be that Mexico would produce more sugar than it consumes. In that event, NAFTA allows Mexico's low-tariff quota for sugar imports into the US to increase markedly, making it possible for Mexico to begin exporting a significant amount of sugar into the US.

- Current US quota imports of sugar are low, about 15% of consumption. Current Mexican production is about 300% of total US quota imports. Diversion of a share of Mexican production into the US market could destabilize the import quota system.

- Including corn syrup in the definition of sweetener would prevent Mexico from becoming defined as a surplus producer under NAFTA and thus keep Mexican sugar imports into the US low.

G★M★A
GROCERY MANUFACTURERS OF AMERICA

C. Manly Molpus
President/Chief Executive Officer

NAFTA

August 5, 1993

Ms. Laura Tyson
Chair
Council of Economic Advisors
314 Old Executive Office Building
Washington, D.C. 20500

Dear Ms. Tyson::

For your information, I am enclosing a copy of an advertisement, sponsored by 15 organizations who represent a broad sector of the U.S. food industry, supporting the North American Free Trade Agreement (NAFTA). The advertisement, which appeared in the Washington Post on Wednesday, August 4, describes the reasons why we give our strong and enthusiastic support for this agreement.

I hope you find this helpful in your efforts to ensure passage of the NAFTA. The Grocery Manufacturers of America and American food and grocery products industry will continue to lend its support in the fight to pass the NAFTA in Congress and would welcome the opportunity to provide you with any additional information you might find helpful on this important economic and foreign policy matter.

Sincerely,

Manly

C. Manly Molpus

1010 Wisconsin Avenue, N.W., Suite 900, Washington, D.C. 20007 ★ (202) 337-9400 ★ FAX: (202) 337-4508

Progressive POLICY INSTITUTE

POLICY BRIEFING

December 10, 1993

A GATT AGREEMENT TO SPARK GLOBAL GROWTH:
Why America Should Lead the Way on World Trade Expansion

Paula Stern

A successful conclusion to the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) will benefit the United States in two key respects. First, it will establish America's global leadership on a critical principle: namely, that liberal trade policies anchored by evenhanded, universally recognized rules of engagement are critical to sustaining economic growth in the emerging global economy. Second, it will directly benefit American workers, producers and consumers by harnessing the forces of global competition in their favor.

As the negotiations go down to the wire, and as this paper is written, there are still sticking points, from aircraft subsidies, to French concerns about an American cultural invasion. Nonetheless, after seven years of negotiations among 116 nations (111 member nations plus five others), any reasonable deal is better than the status quo. Indeed, this GATT round offers groundbreaking opportunities to several American industries by lowering barriers to their exports and by protecting their intellectual innovations in a manner never before contemplated by a global trade agreement. On balance, this will produce more exports and more high-paying export-generated jobs for Americans.

To be sure, an even better trade agreement always lies over the horizon. And that is the case with GATT. The dimensions of the next round of negotiations, which President Clinton is already hinting at, are apparent. Nonetheless, it is critical that as Congress considers this GATT it should not let the perfect become the enemy of the good. The alternative to this GATT is a status quo that fails to expand U.S. economic opportunities and ensures another negotiating stalemate.

What is the Uruguay Round?

Work on the Uruguay Round began September 20, 1986 at Punta del Este, Uruguay when GATT members agreed to expand the work of previous rounds in reducing tariff and non-tariff barriers. They also agreed for the first time in trade agreement history to include agriculture, investment, services, and industries such as high technology and entertainment under the GATT auspices. Finally, they agreed to bring developing countries under the GATT umbrella for the first time.

Now, some seven years later, the final agreement will out of necessity be woven from concessions and trade-offs among the following issues: agriculture; intellectual property rights; subsidies for the aircraft, TV and film industries; and member nations' domestic trade laws, such as U.S. anti-dumping laws. Most GATT members protect agriculture with tariffs, quotas and subsidies. Developing nations have pushed hard to lower barriers to their agricultural, textile and apparel exports. Because several developed nations have resisted pressures to ease farming, textile and garment protections, the developing nations have been less willing to go along with U.S. requests to protect intellectual property such as the patents on pharmaceuticals.

The last remaining unresolved issues between the United States and Europe have been subsidies for aircraft (Airbus), the audio-visual sector (film and TV), and anti-dumping laws. The United States exports more than $4 billion in movies and television. Europe had used the guise of cultural protection to assert its right to restrict foreign programming. Finally, the disagreement over domestic trade laws governing anti-dumping, countervailing duties against subsidies and retaliation against unfair market barriers arose because the United States and others fear a loss of "sovereignty," either within the realm of law or marketplace.

The U.S. timetable for GATT is as follows. The President must sign the agreement by April 15, 1994 and then submit the final text of the agreement and any implementing legislation to Congress. (There is no statutory time limit for this step.) Once introduced, Congress has 90 legislative days to vote on the bill. No amendments are allowed. The vote could come in the summer, but the President and congressional leaders may want to avoid scheduling a vote on trade legislation before the November elections. The vote on the 1974 Trade Reform Act was held after the election. This may be the best course this time, too.

The Case for the Uruguay Round

There is virtual unanimity among economists and a public consensus that American prosperity depends on constantly expanding exports. The GATT agreement represents the single greatest opportunity at this moment to increase the rate at which world trade expands. The benefits of GATT are difficult to calculate precisely. The Organisation for Economic Co-operation and Development estimates that if the GATT agreement succeeds, in the year 2002

Gross Domestic Product worldwide will be $270 billion higher than it would have otherwise.[1] President Clinton stated in Seattle in November that GATT would expand the world economy by $5 trillion in the first 10 years.[2] The actual amounts will probably fall somewhere in between, but probably closer to the President's number.

The progressive case for U.S. support for the GATT agreement can be summed up in three points:

First, *America's economic vitality depends on increased global trade and healthy economic expansion abroad.* The United States exports one-fourth of all the goods it produces, and since 1984 exports have added 1 million manufacturing jobs. In the last 20 years, trade has doubled as a percentage of America's entire gross national product to one-fourth of the total.

Exports are crucial for generating new high-wage jobs. Export-intensive industries in the United States employ more skilled workers, pay higher wages -- 17 percent more than non-export related jobs[3] -- and do more research and development than import-sensitive industries. Roger Altman, Deputy Secretary of the Treasury, has stated that a GATT deal could mean about 1.5 million new jobs over the next 10 years.[4]

Consumers will benefit as well. Lower trade barriers would cut prices for items such as food and clothing, creating substantial benefits, especially for low income American families. According to a recent U.S. International Trade Commission study, American consumers pay $15.85 billion per year more for clothing and textiles than they would if trade barriers were removed.[5] The GATT deal is expected to reduce textile and apparel import protection

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[1] Organisation for Economic Co-Operation and Development, "Assessing the Effects of the Uruguay Round," Paris, France, October 21, 1993. This study has been criticized for focusing too much on agriculture and too little on the liberalization of manufacturing trade.

[2] Remarks by President Clinton before the APEC Host Committee, Seattle, Washington, November 16, 1993.

[3] Office of the U.S. Trade Representative, "U.S. Exports Create High-Wage Employment," press release, June 1992. Also, "USTR: Exports Create High-Wage Employment," Business America, July 13, 1992, pp. 8-9.

[4] Remarks by Deputy Secretary of the Treasury Roger Altman before the Democratic Leadership Council on December 3, 1993.

[5] U.S. International Trade Commission, "Economic Effects of the Significant U.S. Import Restraints," November 1993.

significantly. This would expose U.S. companies to new competition, but the job losses in the textile and apparel sectors would be offset elsewhere by gains springing from higher consumer spending due to lower prices. Consuming industries that rely on components, raw materials and parts will also benefit, increasing the overall efficiency of American manufacturing.

In sum, policies that promote trade and increase exports will enhance our national welfare by moving workers from lower- to higher-wage industries.[6] Pursuing an export-led growth strategy through GATT will also help the United States grow in sectors where we have a comparative advantage and simultaneously help traditional industries find new markets abroad. Goods and capital will flow more freely, benefitting all GATT members, including the world's largest exporter, the United States and its consuming public.

Second, because the *globalization of the world's economies is an inescapable reality,* we need a uniform set of rules. Trade is multi-directional and therefore requires worldwide -- not regional or bilateral -- rules and enforcement system. Consider high technology products and services. These industries rely on guarantees of intellectual property rights to be competitive in international markets. The multilateral extension of these rules under GATT is essential to reducing piracy of intellectual property.

While the Uruguay Round will not completely level the global playing field, it certainly advances us toward that goal and improves America's trading position more than would a continuation of the stalemated status quo. After seven years of negotiations, it is time to harvest the results of these talks, and with that momentum get on to resolving other trade related issues that have cropped up in this period. If nothing else, the plodding progress of GATT is clear evidence that political forces must hasten to catch up with market forces, or risk becoming irrelevant.

Third, reaching a consensus in this round of GATT negotiations will *strengthen the multilateral system that has been the preferred route of U.S. trade policy.* The failure of the Uruguay Round will send the world looking for non-GATT alternatives in regionalism or bilateralism.[7] Recent history shows that a singular reliance on a bilateral approach is inadequate. It fails to bring the needed comprehensive solutions, makes trade liberalization more politically

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6 Lawrence F. Katz and Lawrence H. Summers, "Can Interindustry Wage Differentials Justify Strategic Trade Policy?", in Robert Fenestra, ed., Trade Policies for International Competitiveness, (Chicago: University of Chicago Press, 1989), p. 109.

7 In fact, it can be argued that both the U.S.-Canada Free Trade Agreement and the NAFTA were necessary principally because GATT moved too slowly.

difficult and focuses attention on sector-by-sector negotiations that shift attention away from the more long-term and broad-based multilateral or regional solutions. In effect, this nation and the world get a bigger bang for their negotiating buck from multilateral agreements.

A GATT agreement on rules and enforcement also will reduce the temptation to tilt trade diplomacy toward unilateralism. Without a new GATT agreement, the world will be left with a dysfunctional trading system. U.S. trade policy will rely increasingly on unilateral U.S. actions triggered by petitions from aggrieved parties that are politically well-organized. In turn, other nations will feel unconstrained by multilateral rules and will resort to their own forms of unilateral trade actions with increasing frequency. France is already pushing for adoption of a European Union mechanism that mirrors the U.S. 301 laws that provide for unilateral action against a broad range of "unfair" trade practices by other countries. In addition, many other nations are increasing their unilateral trade enforcement actions, particularly against U.S. firms. An important component of our export strategy is to keep these protectionist instincts overseas at bay through GATT disciplines.

Placing the Uruguay Round in Perspective

When the Uruguay Round first began in 1986, many believed it would produce the "Grand Bargain" of all trade agreements. Not only was this the first time such vital sectors as agriculture, services and intellectual property rights were to be negotiated, it also marked the first attempt to pull developing nations under the same enforcement umbrella as developed nations. After seven years of delay and trade-offs, the agreement has been diminished somewhat. This means fewer and less immediate opportunities for some industries. But new market opportunities have been achieved, and certainly a signed GATT agreement will deflect the inevitable disaster that would follow a failure to arrive at new multilateral trading regulations.

Moreover the Bargain -- whether Grand or not -- between the developed and developing world is a perfect opportunity to address the concerns of protectionists who argue that putting American workers in direct competition with workers in lower-wage developing nations would harm our standard of living. By placing the developing and developed nations under the same trade rules, GATT will help demonstrate the mutual benefits to be derived from uniform trade regulations that liberalize trade. Some of this will become clear from this Uruguay Round agreement, although a fuller agreement would have been even more persuasive.

A number of other issues will serve to perpetuate trade friction despite this GATT round. Now that GATT is touching on culturally sensitive issues, the enforcement efforts required will be more difficult to implement, especially in developing countries. The extended phase-in period for many of the clauses makes it more likely that new political leaders may disavow parts of the agreement. China and Russia still remain outside of GATT. And if history is any guide, foreign penetration of the Japanese market will remain relatively low, although GATT can arguably be viewed as part of an overall strategy with Japan that includes bilateral and regional dialogues to reinforce the GATT agreements.

Building Public Support

The coming public debate over GATT will revive many of the issues that arose in the debate over the North American Free Trade Agreement (NAFTA). Powerful industries will seek relief for their interests in Congress and other legislatures. Opponents will also seize on the budget costs of GATT.[8] A major theme of the opposition is likely to be America's *sovereignty* in the context of GATT's new dispute settlement arrangements. Already, representatives of workers and industries that have traditionally relied on the U.S. trade laws have raised warning flags. They could well be joined by those in the labor, environmental, and consumer communities who fear that U.S. regulations would be jeopardized and by those, such as Pat Buchanan, who voiced isolationist sentiments in the NAFTA campaign. The fact is, however, that in any international agreement or treaty, every country has to give to get. With better enforcement of clearer rules, the United States will gain greater leverage in resolving disputes worldwide when we face barriers in overseas markets. As the world's greatest export superpower, this is critical. In exchange, U.S. rules will have to be in harmony with the rest of the world.

This fall's contentious debate over NAFTA demonstrated the depth of public concern over the domestic economic impact of freer trade. But the impact of the NAFTA agreement on the U.S. economy pales in comparison to the gains that can be achieved with a successful GATT package. The Mexican economy, after all, is one-twentieth the size of the U.S. economy. GATT has 111 members including the world's largest economies and the most important traditional markets that are essential to expanding U.S. jobs and prosperity.

The NAFTA fight showed the strength of economic nationalism and the critical need to build domestic public support for trade agreements long before they near a vote in Congress. Hence, we must begin now to lay the groundwork for the inevitable attacks on trade.

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[8] Estimates of U.S. tariff revenue losses range between $8 billion and $9 billion over five years. However, as GATT expands trade this static calculation will prove wrong. Tariff revenues in the earlier years could even increase if trade, as expected, expands under GATT.

The President must place GATT firmly in the definition of America's national interest and not allow special interests to kill the pact. National interests must come before special interests. This is what the President did with NAFTA and he won by elevating the debate to a choice between competing or retreating from our global leadership role. Congress has already demonstrated that it will follow a strong President who articulates a clear policy and puts the power of the White House behind that policy.

The President also must reassure Americans that the United States will benefit from engagement world-wide. The Administration must focus on building broad domestic political support. When special interests ally with environmental and social-rights activists fighting violations, they can sour the mood of the American public.

Finally, the President will have to show the way for America to reconcile its global ambitions and desire for multilateral principles with its unilateral tendencies. To be a great exporter, to beat down barriers to our exports, and to achieve enforceable rules in the global marketplace, we will have to think about harmonizing our trade rules and regulations with those of the rest of the world. While we do not want to jeopardize our ability to defend our national interest, global interdependence requires us to rethink our traditional notions about sovereignty.

A "Clinton Round"

The passage of NAFTA, the Asian-Pacific Economic Cooperation summit and the Uruguay Round are steps towards formulating a Clinton trade agenda which will enable American consumers and workers to reap the benefits from the inevitable global change. They are the first strides towards remaking the world trade order. The bipartisan trade agenda inherited from the Bush Administration is effectively finished with the successful completion of the Uruguay Round. However, this round passed over many new-era issues such as the environment, competition or antitrust policies and international labor rights.

If Congress approves GATT, the Clinton Administration will have done a good job in closing out the old agenda, indeed a better job perhaps than many expected. Now it must stake out new ground in the trade arena. A progressive trade policy must first provide security for American workers. The trade community must recognize the very real, and often very jarring, impact of global competition on workers and communities, even as the nation benefits as a whole. The right to education and training is part of a social contract that must be renewed each time we negotiate a new trade pact. This begins with school-based youth apprenticeship programs and an employment insurance system that helps workers whose jobs are threatened or disappear buy new skills. Research must also be undertaken to address the public's anxiety about wage suppression and job losses due to trade.

Second, we must address the thorny and sometimes emotionally charged issue of the environment. In a new "green round," rules must be set to achieve sustainable economic growth that does not degrade the environment. But we should guard against allowing enforcement actions taken in the name of environmental protection to become trade protection. Third, we must assure that nations' rules on mergers, cartel behavior and entry into markets are not used unfairly by harmonizing antitrust policies. Finally, we must continue to chip away at the existing barriers to investment and market access. Of course, other nations will also want to include the enforcement of U.S. trade laws.

The "Clinton Round" would focus the world on expanding the rules of the road multilaterally, not unilaterally. If the Administration does not act, trade opponents may force their own interests on the agenda. A "Clinton Round" would place the Administration in a proactive, rather than a reactive, posture. This new multilateral thrust should dominate our trade strategy even as we build an export strategy aimed at the growing Pan-American and Asian markets.

A successful conclusion to this GATT round and the opening of a new Clinton Round will be a clear sign of the President's political leadership and his ability to break through global gridlock. If nothing else, the plodding progress of GATT is clear evidence that political forces must hasten to catch up with market realities. If political leaders learn nothing else, it is that if they do not lead the way, they risk getting run over by dynamic market forces.

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Dr. Paula Stern is Senior Fellow at the Progressive Policy Institute and former chairwoman of the U.S. International Trade Commission

Progressive POLICY INSTITUTE

Executive Summary

The NAFTA and the National Interest

A Progressive Case for Trade Expansion

Policy Report No. 17

by Paula Stern

Two competing views of America's economic future frame the heated debate over the North American Free Trade Agreement (NAFTA). One is optimistic and open. The other is fearful, xenophobic, and closed. The fears of many sincere people regarding the NAFTA reflect an underlying insecurity about the nation's economic future – about the capacity of American workers to compete in a rapidly changing world economy. In the face of change, many Americans would like to believe that they can throw up economic barriers and ignore the world beyond our borders.

The challenge for the Clinton Administration is to restore America's confidence in itself and in our ability to prosper in a profoundly competitive world. The NAFTA is a test case for how America faces its economic future.

Trade expansion, as President Clinton has noted, is an integral part of a comprehensive economic strategy for restoring U.S. growth and competitiveness in global markets. Notwithstanding the fear-mongering rhetoric of the NAFTA's opponents, there are at least four compelling reasons for Americans to rally behind the President's far-sighted policy of trade expansion:

• **First, the United States already has gained jobs through expanded trade with Mexico.** The NAFTA will further that trend. Since 1987, when Mexico began to open its economy to foreign trade and investment, U.S. exports to Mexico have tripled, creating 400,000 new U.S. jobs. More fundamentally, trade is not a zero sum game. *When practiced under fair and reciprocal rules, it increases economic efficiency and lifts incomes in both countries.* Europe, for instance, has prospered within the context of an expanding common market that has steadily eliminated barriers to trade within the bloc and also embraced a less developed country such as Portugal. The more trade between Mexico and the United States, the richer Mexicans will become, and the more they can buy from the U.S.

• **Second, the NAFTA is integral to America's larger strategy of trade expansion and liberalization.** Indeed, U.S. rejection of the NAFTA could set back

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our efforts to break the impasse on the General Agreement on Tariffs and Trade (GATT) and to press Japan and our European trading partners to lift restrictions on U.S. trade and investment. It would call into question the credibility of U.S. economic leadership and its tradition of championing open markets and unrestricted commerce. If the United States – for all its problems, still the world's leading economic power – pursues a narrow, protectionist path, others are sure to follow.

• **Third, America's domestic economic renewal is inextricably linked to export expansion.** Exports accounted for about 44 percent of economic growth from 1987 to 1992, significantly softening the impact of our own recession. Today, although exports to developed country markets are suffering, developing country markets are booming. In particular, sales to Latin America – the bulk of which are to Mexico – are expanding almost three times as fast as U.S. exports to the rest of the world. *Continued export growth is critical for growing jobs at home.* Exports generated nearly all of America's new manufacturing jobs from 1987 to 1992, and in 1990 these exports provided a record 7.2 million jobs for American workers or an estimated 7.4 percent of total U.S. civilian jobs and 17.4 percent of the total jobs in the U.S. manufacturing sector. In other words, exports support more than one in six manufacturing jobs.

• **Fourth, the NAFTA is crucial to better hemispheric relations.** A vote for NAFTA is a vote of confidence in Mexico's future. Passing the NAFTA will help Mexico consolidate its historic progress toward economic and political reforms; rejecting it will signal a U.S. shift toward a "beggar-thy-neighbor" attitude toward Mexico and, by extension, the rest of Latin America. Surely, most Americans would prefer to live beside a more prosperous, stable, and friendly Mexico rather than an impoverished, volatile, and resentful Mexico whose citizens flee north for opportunities they cannot find at home. At the very least, we must repudiate the ugly undercurrent of nativism and prejudice that has accompanied the assault on the agreement.

When the NAFTA is placed in a factual perspective, the reasonable conclusion is that it will neither be a panacea nor a curse for the U.S. economy. First, the tremendous difference in size between the U.S. and Mexican economies – the U.S. economy is about eighteen times larger – will limit the impact of NAFTA, positive or negative. Mexico simply is not capable of flooding the U.S. with cheap goods. *Moreover, NAFTA will not substantially change the rules governing Mexico's access to the United States, nor will it substantially alter the existing rules of investment for U.S. companies seeking to lower their costs with cheap labor.*

Second, U.S. investment flowing to Mexico is but a small portion of overall U.S. investment both at home and abroad. Compared to total nonresidential fixed investment in the United States of $548.2 billion in 1992, the direct investment by Americans in Mexico – $53.3 billion – was a mere statistical blip.

Finally, the job losses and gains projected by both proponents and opponents must be compared to the overall job turnover rate in the United States. *Most studies have projected some job gains due to the NAFTA.* The U.S. International Trade Commission projects that jobs gained will outnumber jobs lost by 35,000 to 170,000. The Institute for International Economics has estimated that 150,000 lost jobs will be offset by job gains of over 320,000. The most pessimistic study has estimated cumulative job losses of 500,000 over 5 years. However, all the numbers of the estimated employment impact pale in significance compared to the approximately eight million to nine million Americans who change jobs each and every year.

The debate over the NAFTA brings Americans to a crossroads in the post Cold War era. One path – President Clinton's choice – leads to the progressive opening of world markets to trade and investment, on the view that America can and must win in global competition to generate good jobs and rising incomes at home. The other path – urged on Americans by an unlikely alliance of "America First" conservatives, special interest groups, and Ross Perot – leads to single reliance on protection for U.S. industries on the assumption that we cannot, for all our strengths, compete against the cheap labor of developing countries or even developed nations like Japan.

Progressives should follow President Clinton on the first path – the path of confidence about Americas' ability to face and master change. Fears of cheap-labor nations are grossly exaggerated. If low labor costs were all that mattered, advanced countries' industries would have decamped long ago for the Third World. Other factors that determine plant locations – the education of the work force, technology, transportation and other infrastructure, a tradition of entrepreneurship, political stability and, above all, worker productivity – give America a decisive advantage over Mexico and most other countries.

What unites the anti-NAFTA forces is a "can't win" attitude toward a world that still relies on U.S. economic leadership. For the sake of preserving specific jobs in specific industries, this new economic isolationism would deny all Americans the manifold benefits of unrestricted commerce; better and cheaper products, more rapid technological advance, access to global capital, and wider markets for our goods and services.

The battle over the NAFTA thus presents a key political test for the Democratic Party. Support for free trade constitutes one of the party's most venerable and progressive principles. Democrats have long maintained that open trading favors the interests of average working families, while tariffs and trade protection favor narrow business and financial interests.

Today, however, organized labor and other party constituency groups are demanding that Democrats junk that principle and instead seek to protect specific jobs rather than the interests of American workers in general. Many congressional Democrats understandably find it difficult to resist such demands by loyal constituents. Yet with Democrats now in control of both the White House and

Congress, the party's challenge is to demonstrate its capacity to govern in the nation's interests rather than legislate on behalf of narrow interests.

While rejecting protectionism, progressives also should spurn conservative free-trade orthodoxy. The Republican Party's "laissez-faire" trade policies of the last decade lost credibility by appearing to ignore the often jarring impact of global competition on American workers and communities. Now is the time for a new synthesis on trade policy, one that takes into account the plight of working Americans buffeted by sudden shifts in global patterns of investment and production as well as the opportunities created by open global trade. Trade expansion must work within a broader economic strategy that builds new sources of security for U.S. workers to replace those dissolving under the pressure of global competition.

We must forge a new compact with American workers that offers new sources of opportunity and security for the era of global competition. Such a compact should include creation of a school-based youth apprenticeship system to raise skills among non-college bound youth, establishment of an Employment Insurance System to help workers whose economic security is threatened purchase career education and skills; substantial increases in the level of private investment in worker skill-training; and support for profit sharing, pay for performance, employee participation and ownership, and other means to create more flexible and democratic workplaces.

The success of the Clinton Administration will be measured largely by its ability to make America more competitive, both at home and abroad. At the same time, opportunities must expand for all Americans, especially those with lower skill and education levels. To do so, our leaders must convince the American public that the benefits of competing in the global economy far outweigh the costs. The NAFTA, therefore, is a crucial test of America's resolve to face the future and of the Clinton Administration's ability to lead America beyond its fears to a new era of growth and economic leadership.

Copies of the complete study, "The NAFTA and the National Interest: A Progressive Case for Trade Expansion," (Policy Report No. 17) are available from the Progressive Policy Institute, 518 C Street, NE, Washington, D.C., 20002. (202) 547-0001.

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The challenge for the Clinton Administration is to restore America's confidence in itself and in our ability to prosper in a profoundly competitive world. The NAFTA is a test case for how America faces its economic future.

Trade expansion, as President Clinton has noted, is an integral part of a comprehensive economic strategy for restoring U.S. growth and competitiveness in global markets. Notwithstanding the fear-mongering rhetoric of the NAFTA's opponents, there are at least four compelling reasons for Americans to rally behind the President's far-sighted policy of trade expansion:

• **First, the United States already has gained jobs through expanded trade with Mexico.** The NAFTA will further that trend. Since 1987, when Mexico began to open its economy to foreign trade and investment, U.S. exports to Mexico have tripled, creating 400,000 new U.S. jobs. More fundamentally, trade is not a zero sum game. *When practiced under fair and reciprocal rules, it increases economic efficiency and lifts incomes in both countries.* Europe, for instance, has prospered within the context of an expanding common market that has steadily eliminated barriers to trade within the bloc and also embraced a less developed country such as Portugal. The more trade between Mexico and the United States, the richer Mexicans will become, and the more they can buy from the U.S.

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our efforts to break the impasse on the General Agreement on Tariffs and Trade (GATT) and to press Japan and our European trading partners to lift restrictions on U.S. trade and investment. It would call into question the credibility of U.S. economic leadership and its tradition of championing open markets and unrestricted commerce. If the United States – for all its problems, still the world's leading economic power – pursues a narrow, protectionist path, others are sure to follow.

• **Third, America's domestic economic renewal is inextricably linked to export expansion.** Exports accounted for about 44 percent of economic growth from 1987 to 1992, significantly softening the impact of our own recession. Today, although exports to developed country markets are suffering, developing country markets are booming. In particular, sales to Latin America – the bulk of which are to Mexico – are expanding almost three times as fast as U.S. exports to the rest of the world. *Continued export growth is critical for growing jobs at home.* Exports generated nearly all of America's new manufacturing jobs from 1987 to 1992, and in 1990 these exports provided a record 7.2 million jobs for American workers or an estimated 7.4 percent of total U.S. civilian jobs and 17.4 percent of the total jobs in the U.S. manufacturing sector. In other words, exports support more than one in six manufacturing jobs.

• **Fourth, the NAFTA is crucial to better hemispheric relations.** A vote for NAFTA is a vote of confidence in Mexico's future. Passing the NAFTA will help Mexico consolidate its historic progress toward economic and political reforms; rejecting it will signal a U.S. shift toward a "beggar-thy-neighbor" attitude toward Mexico and, by extension, the rest of Latin America. Surely, most Americans would prefer to live beside a more prosperous, stable, and friendly Mexico rather than an impoverished, volatile, and resentful Mexico whose citizens flee north for opportunities they cannot find at home. At the very least, we must repudiate the ugly undercurrent of nativism and prejudice that has accompanied the assault on the agreement.

When the NAFTA is placed in a factual perspective, the reasonable conclusion is that it will neither be a panacea nor a curse for the U.S. economy. First, the tremendous difference in size between the U.S. and Mexican economies – the U.S. economy is about eighteen times larger – will limit the impact of NAFTA, positive or negative. Mexico simply is not capable of flooding the U.S. with cheap goods. *Moreover, NAFTA will not substantially change the rules governing Mexico's access to the United States, nor will it substantially alter the existing rules of investment for U.S. companies seeking to lower their costs with cheap labor.*

Second, U.S. investment flowing to Mexico is but a small portion of overall U.S. investment both at home and abroad. Compared to total nonresidential fixed investment in the United States of $548.2 billion in 1992, the direct investment by Americans in Mexico – $53.3 billion – was a mere statistical blip.

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The debate over the NAFTA brings Americans to a crossroads in the post Cold War era. One path – President Clinton's choice – leads to the progressive opening of world markets to trade and investment, on the view that America can and must win in global competition to generate good jobs and rising incomes at home. The other path – urged on Americans by an unlikely alliance of "America First" conservatives, special interest groups, and Ross Perot – leads to single reliance on protection for U.S. industries on the assumption that we cannot, for all our strengths, compete against the cheap labor of developing countries or even developed nations like Japan.

Progressives should follow President Clinton on the first path – the path of confidence about Americas' ability to face and master change. Fears of cheap-labor nations are grossly exaggerated. If low labor costs were all that mattered, advanced countries' industries would have decamped long ago for the Third World. Other factors that determine plant locations – the education of the work force, technology, transportation and other infrastructure, a tradition of entrepreneurship, political stability and, above all, worker productivity – give America a decisive advantage over Mexico and most other countries.

What unites the anti-NAFTA forces is a "can't win" attitude toward a world that still relies on U.S. economic leadership. For the sake of preserving specific jobs in specific industries, this new economic isolationism would deny all Americans the manifold benefits of unrestricted commerce; better and cheaper products, more rapid technological advance, access to global capital, and wider markets for our goods and services.

The battle over the NAFTA thus presents a key political test for the Democratic Party. Support for free trade constitutes one of the party's most venerable and progressive principles. Democrats have long maintained that open trading favors the interests of average working families, while tariffs and trade protection favor narrow business and financial interests.

Today, however, organized labor and other party constituency groups are demanding that Democrats junk that principle and instead seek to protect specific jobs rather than the interests of American workers in general. Many congressional Democrats understandably find it difficult to resist such demands by loyal constituents. Yet with Democrats now in control of both the White House and

Congress, the party's challenge is to demonstrate its capacity to govern in the nation's interests rather than legislate on behalf of narrow interests.

While rejecting protectionism, progressives also should spurn conservative free-trade orthodoxy. The Republican Party's "laissez-faire" trade policies of the last decade lost credibility by appearing to ignore the often jarring impact of global competition on American workers and communities. Now is the time for a new synthesis on trade policy, one that takes into account the plight of working Americans buffeted by sudden shifts in global patterns of investment and production as well as the opportunities created by open global trade. Trade expansion must work within a broader economic strategy that builds new sources of security for U.S. workers to replace those dissolving under the pressure of global competition.

We must forge a new compact with American workers that offers new sources of opportunity and security for the era of global competition. Such a compact should include creation of a school-based youth apprenticeship system to raise skills among non-college bound youth, establishment of an Employment Insurance System to help workers whose economic security is threatened purchase career education and skills; substantial increases in the level of private investment in worker skill-training; and support for profit sharing, pay for performance, employee participation and ownership, and other means to create more flexible and democratic workplaces.

The success of the Clinton Administration will be measured largely by its ability to make America more competitive, both at home and abroad. At the same time, opportunities must expand for all Americans, especially those with lower skill and education levels. To do so, our leaders must convince the American public that the benefits of competing in the global economy far outweigh the costs. The NAFTA, therefore, is a crucial test of America's resolve to face the future and of the Clinton Administration's ability to lead America beyond its fears to a new era of growth and economic leadership.

Copies of the complete study, "The NAFTA and the National Interest: A Progressive Case for Trade Expansion," (Policy Report No. 17) are available from the Progressive Policy Institute, 518 C Street, NE, Washington, D.C., 20002. (202) 547-0001.

MEMORANDUM

COUNCIL OF ECONOMIC ADVISERS

TO: LAURA TYSON
ALAN BLINDER
JOE STIGLITZ

FROM: JAY STOWSKY

SUBJECT: ADMINISTRATION ACCOMPLISHMENTS BOOK FOR CALIFORNIA HIGH TECH SUMMIT

Here, for your information, is the final draft of the executive summary of the Administration Accomplishments book which will be distibuted at the California Technology Summit in San Francisco, November 4-5.

Attachment

cc: Tom O'Donnell

NEW SUMMARY

Executive Summary

Since unveiling its technology policy on February 22, the Clinton-Gore Administration has followed up with concrete actions designed to create jobs, strengthen America's technological and industrial leadership, and boost our standard of living—today and tomorrow. In the first 9 months, the Administration has:

- **Provided incentives for ~~private-sector research and development~~ and new business formation** by extending the R&D tax credit and ~~reducing the~~ capital gains tax for investments in small businesses;
- **Developed a National Export Strategy,** including the elimination of export controls on computers and telecommunications that will free up over $30 billion in high-tech exports; $30 Bill
- **Aggressively pursued bilateral and multilateral trade agreements** (NAFTA, U.S.-Japan, Uruguay Round) that will expand access to foreign markets for America's high-tech companies;
- **Shifted Federal R&D priorities toward civilian technology,** with dramatic expansion of initiatives such as the Advanced Technology Program, manufacturing extension, and the Small Business Innovation Research program; ATP SBIR
- **Promoted defense conversion** through the highly successful Technology Reinvestment Project and comprehensive procurement reform; TRP
- **Invested in worker skills** required for the high-performance workplace of the 21st century;
- **Developed an action plan for the National Information Infrastructure** and ordered the transfer of 200 MHz of spectrum from the Federal Government to the private sector to jump-start new wireless technologies; NII plan auction
- **Forged industry partnerships** in sectors such as electronics, autos (Clean Car), energy and environment, and advanced transportation;
- **Expanded Federal investments in basic research** through agencies such as the National Science Foundation; and
- **Made better use of information technology a cornerstone of its efforts to "reinvent government,"** by, for example, moving toward electronic procurement.

Collectively, these initiatives will lead to economic growth, the creation of high-wage jobs, a cleaner environment, and a continuation of America's leadership in basic science—goals established in the Administration's February 22 statement on technology policy. As noted in that document, the Administration believes strongly that:

- **Technology is the engine of economic growth,** accounting for over half of America's long-run productivity.

- **Leadership in the use and deployment of technology is also essential for the achievement of other national goals,** including sustainable development, energy efficiency, an industrial base capable of meeting our national security requirements, and a government that works better and costs less.

- **The United States must establish a world-class environment for private-sector investment,** given the mobility of capital and technology in today's global economy. For that reason, tax, trade, macroeconomic, regulatory, and human resource policies are all key to making the United States second to none in the commercialization of new technologies.

- **The Administration's technology policy will not be successful without the establishment of a genuine partnership with industry, labor, and academia.** Given the rapid pace of technological change, government programs will not be successful unless they are tightly coupled to industry requirements.

This document outlines the Administration's accomplishments and indicates its plans for the future. The President's technology policy is very much a "work in progress"—and the Administration welcomes suggestions for enhancing and accelerating these initiatives.

Technology for Economic Growth: A Checklist of Clinton Administration Key Accomplishments

Establish clear policies for the Federal Government's role in civilian technology, including a shift in the Federal R&D balance for civilian technology toward a 50/50 ratio.

- ✓ Developed within the Administration's first month an explicit, aggressive plan for using technology to support America's economic growth.
- ✓ Submitted and advanced a budget for FY 1994 that included an additional $2.6 billion investment in civilian R&D, moving the government toward greater civilian-military balance in Federal R&D support. New $

Launch the Technology Reinvestment Project (TRP) to stimulate the transition from defense to civilian industrial capabilities.

- ✓ Conducted a national outreach initiative to ensure maximum TRP participation by U.S. industry, generating 2,850 proposals for this unprecedented, ARPA-led multiagency program.
- ✓ Selected 41 projects, accounting for $140 million in requested Federal matching funds—the first wave of grants to projects designed to create jobs by promoting new, dual-use technologies. New data
- ✓ Planned to announce remainder of awards in this $472 million merit-based program in November.

Expand dramatically the Advanced Technology Program (ATP) to spur industry's development of high-risk, high-payoff commercial technologies.

- ✓ Strongly endorsed the tenet behind this cost-shared program with industry to support high-risk, high-potential commercial technologies, a major change in policy from previous Administrations.
- ✓ Designed the scale-up of the ATP to ensure that it has major impact on the U.S. economy and won congressional support for dramatic funding expansion for this program—to $200 million in FY 1994, up from $68 million—at the Commerce Department's National Institute of Standards and Technology. New $ & data
- ✓ Planned to announce 60 new ATP awards to industry in FY 1994, plus three first-time strategic program competitions.

Increase access to commercially useful technology at Federal R&D agencies.

✓ Made a clear break with prior Administrations by placing heavy emphasis on dual-use technology development by the Department of Defense to ensure that military and commercial sectors benefit mutually from technology advances and proposed an additional $260 million for this effort. New $

✓ Declared goals and established a specific plan for strengthening and streamlining linkages between Department of Energy laboratories and U.S. industry.

✓ Upgraded technology commercialization priorities at the National Aeronautics and Space Administration.

Mobilize Federal resources and policies to support the National Information Infrastructure (NII).

✓ Set an ambitious action agenda for a National Information Infrastructure that clarifies private- and public-sector responsibilities and makes clear the fundamental requirements for universal citizen access and commercial-sector benefits.

✓ Organized a multiagency task force to coordinate the Federal Government's NII activities and to work closely with industry in carrying out the action agenda and in addressing specific policy issues.

✓ Congress passed an Administration initiative to transfer to the private sector a portion of the radio-frequency spectrum now used by Federal agencies, and to allow competitive bidding in granting new licenses—thereby promoting private investment in the National Information Infrastructure. new

✓ Initiated a grants program to ensure all Americans have access to the NII and won congressional approval for $26 million to begin the initiative. New $

Promote technology-based exports by revamping and liberalizing government export control and promotion programs, and by establishing and carrying out supportive trade policies.

✓ Completed a major review of government's trade promotion and export policies and operations and developed a strategy to boost U.S. exports by 60 percent and generate 6 million new jobs by the year 2000.

Added data

- ✓ Took initial steps to reduce export controls on U.S. computer, supercomputer, and telecommunications products—with massive world markets—raising the threshold for licensing computer exports, and proposing a dramatic change in the definition of a supercomputer and removal of prior export licensing requirements for most telecommunications exports.
- ✓ Began to streamline and improve the government's export promotion programs, creating a pilot one-stop shop to eliminate the maze of Federal offices that exporters must now contact.
- ✓ Advanced the NAFTA agreement, which is expected to bring substantial benefits for U.S. technology-based industries and workers.

Establish a network of manufacturing extension centers to assist small and medium-sized businesses to modernize.

- ✓ Created a comprehensive plan to scale up from seven government-supported centers to a nationwide network of 100 centers in a Manufacturing Extension Partnership by 1997.
- ✓ Jump-started this national network through the defense Technology Reinvestment Project, and gained congressional support to fund additional centers in FY 1994.

Make worker training and education more accessible and more productive to better prepare the American workers of tomorrow.

New

- ✓ Established a new Office of the American Workplace in the Department of Labor to speed the adoption of high-performance work practices, including people-oriented technology strategies.
- ✓ Initiated a thorough review of federally funded retraining and assistance programs with the aims of consolidating the patchwork of existing services and of improving program effectiveness.
- ✓ Proposed creation of a national system of standards for occupational skills to improve the match between workers' skills and businesses' workforce needs. (Legislation is pending in Congress.)
- ✓ Advocated an initiative to build an effective school-to-work system that prepares young people for high-skill, high-wage jobs.

Create new Federal laboratory partnerships with industry to strengthen U.S. economy and create jobs through the development and commercialization of technology.

- ✓ Established a partnership with the auto industry for a new generation of more energy-efficient vehicles, the Clean Car Initiative, and agreed upon aggressive, far-reaching goals.
- ✓ Entered into a record number of Cooperative Research and Development Agreements between Federal technology agencies and U.S. industry, with an additional 1,600 new joint projects expected this year.

New data for FY 94

- ✓ Began or strengthened collaborations with industry through consortia covering semiconductor electronics, display technology, textiles, biosensors, aerospace alloys, polymer blends, and microelectro-mechanical systems.

Create a business environment that fosters innovation and forward-looking private-sector investments.

- ✓ Won congressional approval of tax incentives for private-sector investment in R&D and new business formation, including a 3-year extension of the R&D credit and a targeted capital gains reduction for investments in small businesses.

will add SBIC bullet

Harmonize environmental and economic objectives and improve efficiency in the use of energy resources.

- ✓ Developed a strategy for reducing the growth of greenhouse gases linked to global warming, including initiatives relying on increased energy efficiency that will stimulate technology investments and strengthen the U.S. position in the global environmental marketplace.
- ✓ In addition to the Clean Car initiative, launched separate initiatives: to fund a long-term Federal R&D effort for natural gas and to develop environmentally sound technologies—and to boost exports of these technologies.

Organize government technology efforts to perform more efficiently and effectively, and to work more closely with the private sector.

- ✓ Created a strong, new National Science and Technology Council, replacing numerous Federal committees to better coordinate technology plans and programs across the government and with industry.
- ✓ Championed key legislative proposals to increase coordination across government agencies and to improve the effectiveness of Federal technology programs.

- ✓ Made advanced civilian technology a top priority at the Commerce Department for the first time and developed a department-wide strategy for meeting industry's technology-related development, commercialization, and trade needs.
- ✓ Launched a wide-ranging effort to reinvent government, including the start of a major push to capitalize on new technologies to revamp Federal agency operations and better serve industry and the public.

Maintain U.S. leadership in basic science, mathematics, and engineering. Worked with the Congress to increase the National Science Foundation's FY 1994 budget by 11 percent to a total of $3 billion, providing:

Now (NSF)

- ✓ Strong support for fundamental research critical to manufacturing, advanced materials, environmental technologies, and biotechnology;
- ✓ Establishment of a technical education program geared to community colleges; and
- ✓ Doubled support for modernizing academic research facilities and instrumentation.

Putting Technology to Work for America's Future

On February 22, the Clinton Administration issued *Technology for America's Economic Growth, A New Direction to Build Economic Strength,* enunciating a technology policy that takes a realistic and comprehensive view of intensifying global economic competition. This policy recognizes that industry is the primary creator of new technology and the main engine of sustained economic growth. It assigns the Federal Government a supporting role, performing as partner to industry by facilitating technology development and application.

The February report provides a blueprint for a far-reaching set of specific actions. At its foundation are three central goals that provide touchstones for the government's overall role in science and technology:

- Long-term economic growth that creates jobs and protects the environment;
- A government that is more productive and more responsive to the needs of its citizens; and
- World leadership in basic science, mathematics, and engineering.

New (NST)

Since February, the Administration has put into place programs and initiatives to fulfill these goals. Manufacturing research programs have been expanded, education and training programs have been restructured, the entire Federal Government is examining its operation and reinventing itself, and basic research in science and engineering is benefiting from a sustained level of investment.

Meeting the Challenges

As the pace of technological progress accelerates and other nations increase their mastery of technology development and application, the public and private sectors must confront together the challenge of devising and carrying out strategies that foster innovation and enable U.S. industry to realize the commercial benefits of new technology.

Challenges abound. One is to respond to the increasing complexity and uncertainty of technological innovation, engendering costs and risks that may be too great for even the largest of firms to undertake on their own. Another is to maintain a vigorously competitive high-technology sector, where average annual compensation exceeds by 20 percent the average for all manufacturing.

High-technology products account for a rapidly increasing share of world manufacturing output, nearly doubling to about 35 percent since 1980. The United States, however, has not benefited fully from the boom in high-technology markets. Over the last decade, exports of high-technology products as a share of all U.S. merchandise exports increased only about 4 percentage points. Imports of high-technology goods grew much more rapidly, recording a 20 percentage-point jump in the share of all U.S. imports. Consequently, the U.S. share of global shipments of high-technology goods dropped by one-tenth, from 40 percent to 36 percent of the world total.

New technology also is vital to the health of conventional industries, leading the way to market-building improvements in existing products and services, manufacturing processes, and overall business performance. In the service sector, the tools of the Information Age—with each new generation of technology growing in capability and flexibility—help create new opportunities for business growth.

New technology also underpins productivity increases, job creation, and gains in wages. The real wage of the average American worker increased eightfold over the last century, the direct result of an eightfold increase in average productivity. Advances in technology—better machines, organizational improvements, and more-skilled workers—account for as much as three-fourths of this productivity growth. In recent decades, however, declining rates of investment in production technologies have contributed to sluggish productivity growth. At the same time, the educational system has not produced adequate numbers of workers prepared for the modern workplace, resulting in a large pool of low-skilled workers being relegated to low-wage jobs. Over time, lagging investment in new technology contributes to a less-skilled workforce and, in turn, to worsening employment opportunities (lower-quality jobs and lower wages). Although technological change can be disruptive to segments of the labor force, the consequences of rejecting technological change are far worse.

New (Stowsky)

UNCLASSIFIED

DEPARTMENT OF THE TREASURY
WASHINGTON

Office of International Debt Policy

FACSIMILE COVER SHEET

Date: 11/16/93

Number of Pages to Follow: ~~9~~ 10

TO: Sherman Robinson

Addressee's Fax Number: 225-9711

Addressee's Confirmation Number: 225-5256

FROM: DO/IDD, Main Treasury, Room 5218, (202) 622-1850

		Confirmation Number
✓	Mary E. Chaves	(202) 622-1850
	William A. Schall	(202) 622-1850
	Maxwell W. Hudgins	(202) 622-1850
	Stephen P. Donovan	(202) 622-1850
	Kelle A. Bevine	(202) 622-1850

Sender's Fax Number: (202) 622-0218 or (202) 622-2599

Comments/Special Instructions:

This is the packet which Mike Levy and Jeff Shafer have cleared.

UNCLASSIFIED

KEY ALLEGATIONS REGARDING NADBANK BEFORE THE HOUSE RULES COMMITTEE

Charge: The NAFTA implementing bill gives a priority to NADBank in foreign aid appropriations, and would come at the expense of other aid.

-- There is no impact on other 150 account discretionary budget appropriations programs since this is in the mandatory accounts for FY 95.

-- Congress and the Administration will need to decide where the out-year funding for the NADBank will come from within either the mandatory or discretionary accounts.

Charge: The U.S. is in arrears to the multilateral development banks already; we can't afford another one.

-- We need to address the MDB arrears problem, and set priorities for the 150 account.

-- The NADBank is an important component of the NAFTA legislation to provide for border environmental cleanup.

Charge: Inclusion of the NADBank in the NAFTA legislation violates the Appropriations Committee's prerogative to oversee foreign aid appropriations. The Committee was given no opportunity for substantive input.

-- The House Rules Committee approved a general waiver of all budget points of order.

-- The members of the Appropriations Committee have had the same opportunity as other members to make their views known on the NADBank.

-- The House Banking Committee held a hearing on the border cleanup and NADBank, at which the Chairman of the Foreign Operations Appropriations Subcommittee testified.

Charge: Mexico is a poor credit risk and the U.S. will end up picking up Mexican obligations to the NADBank.

-- Mexico is a good and improving credit risk. It has substantial reserves and good economic policies. Its new bond issues are trading at par.

-- Mexico will share equally in the capitalization of the NADBank and is capable of easily meeting its obligations.

PLEASE DELIVER TO: LEGISLATIVE AFFAIRS 11/16/93

To: Mary Chavez 622-0218

never extradited one of its citizens for crimes committed in the United States. While sources said the Mexican government has become more responsive to Shaw's concerns since the NAFTA debate shifted into high gear, the Mexicans so far have been reluctant to provide written assurances — apparently for fear of appearing to cater excessively to U.S. interests.

Meanwhile, the general lobbying pressure on Shaw also has kicked into high gear. Leading NAFTA opponent Ross Perot visited Shaw three times last week. And Shaw was slated to have lunch today with a high-profile NAFTA backer, Lee Iacocca.

Rule Approved For NAFTA Floor Debate Wednesday

The House Rules Committee today approved a rule for the House to debate for eight hours and vote on the North American Free Trade Agreement Wednesday, although some NAFTA opponents objected to a waiver of all budget points of order — and suggested some elements of the accord could face court battles. The eight hours of debate will be divided into four equal segments. Two hours each will be controlled by **Ways and Means Chairman Rostenkowski**, who favors NAFTA; **Majority Leader Gephardt**, who opposes it; **Minority Leader Michel** a NAFTA advocate; and **Rules ranking member Gerald Solomon**, R-N.Y., a NAFTA opponent.

The primary complaints before the Rules panel focused on the North American Development Bank, which is considered an appropriation in a legislative bill. **Foreign Operations Appropriations Subcommittee Chairman David Obey**, D-Wis., complained the NAFTA implementing bill gives priority to the NADBank in foreign aid appropriations and that the funding would come at the expense of other aid. "The Appropriations Committee was offered no opportunity for substantive input," Obey complained, contending there is "no real possibility to provide financing for that bank after the first year." Obey sought separate debate time on the issue, but the panel rejected the request.

The panel agreed by voice vote to approve the rule, and even Solomon, a NAFTA opponent, said attempts to amend the bill through the rule would be viewed as obstructionist. "It's not a good rule, but there's nothing you can do to prevent it," he said. Solomon also suggested the bill has constitutionality problems, and objected to the inclusion of the supplemental agreements in the legislation that cannot be amended under fast track rules — but which were negotiated after fast track authority expired. He predicted there would be court action if NAFTA is approved.

HOUSE RACES

Valentine Announces Retirement, Cites Age, Family

Rep. Tim Valentine, D-N.C., first elected to the House in 1982, announced this afternoon he would not seek re-election next year — becoming the 16th House member to retire or seek higher office in 1994. After a floor speech announcing his intentions, Valentine, 67, said he decided to step aside because he wanted to spend more time with his family and cited age as a factor. "I will be 68 years old next year," Valentine said. "I will have served here 12 years. I think it's time to turn this responsibility over to a younger person."

State political observers had speculated that flack over Valentine's support for the Clinton budget plan this year had made a re-election campaign more difficult, while others surmised Valentine was anxious to return home. State Rep. Bobby Ray Hall had announced he would take on Valentine in the Democratic primary, representing a challenge on Valentine's right flank. State school superintendent Bobby Etheridge, a Democrat, has indicated he will announce and at

NADBANK: IMPACT ON FOREIGN AID

QUESTION: Does NADBank displace other forms of foreign aid?

ANSWER:

- The NADBank is not foreign aid. It is a development bank that will finance projects along the border which are either in the United States or are projects in Mexico that have a direct impact on the United States.

- The FY 1995 funding for the NADBank ($56 million) will **not** displace FY 1995 **discretionary** appropriations for foreign aid since it is part of the NAFTA implementing legislation, which makes it a mandatory expenditure.

- The Administration and Congress will have to decide where the out-year funding for the NADBank will come from within either the mandatory or discretionary accounts.

NADBANK FUNDING -- POINT-OF-ORDER?

Question: Is the funding mechanism for the first year advance appropriations a violation of the Rules of the House?

Answer: The House Rules Committee has voted to include in the rule for NAFTA a waiver of a technical point of order concerning appropriations for the first year of the NADBank. With this waiver, there is no longer any violation of House rules.

In the absence of the waiver, a point of order could be raised against the bill because the bill includes appropriations on an authorizing bill. However, there is a strong basis for seeking a waiver of this rule in the case of fast-track consideration of NAFTA.

Fast-track procedures for a legislative issue dictate that there is only one piece of legislation that can be voted on for that item. This affords fast-track protection to all facets of the legislation. Any facets of the legislation that are necessary and appropriate for implementing the legislative goals are allowed to be and need to be included in that single piece of legislation. The NADBank -- including its appropriation for at least one year -- are necessary provisions for implementing NAFTA. They provide for capitalizing larger amounts of funding that are needed to address critical border environmental and infrastructure issues, as well as community development issues. Such funding could not be begun without at least one year's appropriation locked in.

Therefore, if this appropriation for the first year of NADBank, is to be accorded fast-track protections, it must be included on the NAFTA authorizing statute. Since such inclusion could be subject to a point-of-order, the waiver of the point-of-order becomes both necessary and justified.

BORDER CLEAN-UP: IMPACT ON U.S. TAXPAYER

QUESTION: Will cleaning up the Mexican border be shifted to the backs of the U.S. taxpayer?

ANSWER:

- No. The arrangements emphasize user fees, which will be paid by those who cause the pollution and will bring in private funding. **Polluters will pay.**

- Thus, the costs to government will be minimized and shared by the federal, state and local governments on both sides of the border.

- The border clean-up problem predates NAFTA. NAFTA is part of the solution, not the problem.

- The only new U.S. federal funding is the $225 million to capitalize our share of the NADBank, of which $56 million are included in the NAFTA implementing legislation. This will be leveraged into $2-3 billion in financing through borrowings in the capital markets. This route is much less costly to the U.S. taxpayer than increased grants.

- The Border Environment Cooperation Commission (BECC) and the NADBank will mobilize and leverage financing from private sources, existing state and local programs, Mexican grants and World Bank and other international loans to Mexico.

BORDER CLEAN-UP: IS IT ENOUGH?

QUESTION: Is this enough? Can it do the job?

ANSWER:

- o It is ironic that opponents say this proposal would both do too little and cost too much. Which is it?

- o We think we have covered the priority areas -- and for minimal additional costs.

- o The cost of border clean-up has been estimated at between $6.5 billion (U.S./Mexico Business Council) and $8.0 billion over the next decade to cover the priority needs of wastewater treatment, drinking water, and municipal solid waste.

  - -- The $8.0 billion estimate is consistent with the Sierra Club estimates for these same priority needs.

  - -- The overall Sierra Club estimate (some $21 billion) encompasses a much more ambitious program of road construction, support for displaced Mexican farmers, as well as air pollution and hazardous waste which are being addressed through other mechanisms.

- o We believe that the combination of existing and new mechanisms can generate $8.0 billion in financing.

  - -- $2 billion on the U.S. side from existing sources (state/federal support for the colonias, state revolving funds, municipal bonds);
  - -- $2 billion from the multilateral development banks;
  - -- $4 billion from new or joint financing mechanisms (private sector sources, U.S.-Mexico grants, the NADBank)

MEXICAN CAPITAL AND NADBANK LEVERAGE

QUESTION: Isn't Mexico too poor to leverage their share of capital? Won't their obligation fall on the backs of the U.S. and our taxpayers?

ANSWER:

- The Mexican obligation to the NADBank will not fall on the U.S. taxpayer.

- Mexican capital contributions to the NADBank will be the same as the United States: $225 million in paid-in capital and $1.275 billion in callable capital to the NADBank.

  - Given its reserves, resources and access to funding, Mexico is capable of easily covering its callable capital.

  - Furthermore, we do not expect the NADBank callable capital ever to be called; there has never been a call on callable capital in any of the development banks.

- Once fully capitalized, we anticipate that the NADBank will **initially** be able to provide at least $2.0 billion in lending and guarantees.

- As capital markets become more familiar with the NADBank and its operations, we expect that over time NADBank operations will generate some $3 billion or more in financing, given U.S. creditworthiness and the expectation that Mexico would improve its creditworthiness under NAFTA.

- The experience of the World Bank is enlightening.

  - Its total outstanding loans and commitments are now almost as much as its total capital, and its cumulative lending since its inception is greater than its capital.

  - It currently leverages financing on the capital of both its industrialized country members and its developing country members.

NADBANK AND U.S. SOVEREIGNTY

QUESTION: Will the Border Environment Cooperation Commission (BECC) and the NADBank impinge on U.S. sovereignty?

ANSWER:

- No. The BECC and the NADBank have no sovereign power of their own.

- They can only offer their services to state and local bodies and assist them in coordinating, overseeing and financing environmental infrastructure projects.

- Communities can choose to use the BECC and the NADBank or not.

DEPARTMENT OF THE TREASURY
WASHINGTON

FACT SHEET ON THE U.S./MEXICAN AGREEMENT ON THE BORDER ENVIRONMENT COOPERATION COMMISSION (BECC) AND THE NORTH AMERICAN DEVELOPMENT BANK (NADBANK)

Final agreement has been reached with the Mexican Government on new binational mechanisms to facilitate border environmental clean-up and to provide additional support for community adjustment and investment related to NAFTA. This agreement, reached after months of negotiations, ensures that the United States and Mexico will work together to address the environmental problems that plague the border region between our two countries. Special priority will be placed initially on wastewater treatment, water pollution, and municipal waste problems. Two new organizations will be created:

(1) A Border Environment Cooperation Commission to assist border states and local communities in coordinating, designing, and financing environmental infrastructure projects with cross-border impact. The degree of local and public participation will be unprecedented, including strong representation on the Commission's Board of Directors and Advisory Council, as well as public notification and comment on proposed projects.

(2) A North American Development Bank (NADBank) to provide $2 - 3 billion in financing for both border environmental projects and, more broadly within the U.S., for NAFTA-related community adjustment and investment. The U.S. and Mexico will each provide $225 million in paid-in capital over a 4-year period to leverage financing. Ten percent of the U.S. and the Mexican shares of the NADBank will be available for community adjustment and investment. The U.S. shares should generate at least $200 million in financing by complementing existing small and rural business assistance programs.

The binational agreement reflects an unprecedented degree of local involvement and public comment for border projects. It will help to maximize private sector financing and minimize the budget cost to the U.S. Government. The new accord underscores how NAFTA has fostered a new level of cooperation on the environment between our two countries.

Border Environment Cooperation Commission

The Border Environment Cooperation Commission (BECC) will work with the affected states and local communities and non-governmental organizations in developing effective solutions to environmental problems in the border region. The BECC will certify projects to the NADBank and other financial institutions. To be eligible, projects must observe the environmental laws for the place where the project is to be located or carried out. For a project with significant transboundary effects, an environmental assessment shall be presented and the Board shall determine, in consultation with affected states and localities, that the project meets the necessary conditions to achieve a high level of environmental protection for the affected area.

The BECC will have a binational Board of Directors and decision-making procedures structured to ensure that the views of affected states, local communities, and members of the public will be fully taken into account. Each country shall have five members on the Board of Directors: the senior environmental official; the commissioner of the International Boundary and

Water Commission; a representative from a border state; a representative from a locality in the border region; and a member of the public who resides in the border region. The Commission will be required to consult with an Advisory Council of 18 members--nine from each country--that will include representatives of state or local governments or community groups from each of the border states, and members of the public, including nongovernmental organizations. The Commission will establish procedures for public participation, including written notice and opportunity to comment on general guidelines and on applications for certification of projects.

The BECC will seek to mobilize private capital to the maximum extent possible in order to leverage government financing. Arrangements for servicing the debt will encourage reliance on fees paid by those causing pollution. The BECC can mobilize sources of financing for environmental infrastructure projects from the North American Development Bank; direct government support, such as grants, loans, and guarantees from federal, state and local governments; and the private sector.

North American Development Bank (NADBank)

The North American Development Bank (NADBank) will be capitalized and governed by the two countries. Its purpose is to finance projects certified by the Border Environment Cooperation Commission, and provide support for community adjustment and investment. The NADBank's capital shares ($450 million of paid-in capital and $2.55 billion of callable capital) will be contributed equally by the United States and Mexico. It is envisaged that the Bank will be able to make some $2 billion or more in loans and guarantees, with an upper limit of $3 billion. The Bank will be governed by a six-member board, with an equal number of representatives from each country. The Bank will evaluate the financial feasibility of projects certified by the BECC and provide financing as appropriate.

The United States and Mexico also have agreed that up to 10 per cent of the resources of the Bank will be made available, on an equal basis, for community adjustment and investment in both countries, which need not be in the border region. The United States will implement the program by tapping into existing federal credit programs, such as the Small Business Administration's Section 7(a) loan guarantee program and the Rural Development Administration's Business and Industrial Loan Guarantee program. Pursuant to an agreement with NADBank, a participating federal agency will issue and administer loans or guarantees on behalf of the NADBank to borrowers meeting both that agency's lending criteria and additional criteria reflecting the purposes of the community adjustment and investment window. The NADBank will transfer money (up to $22.5 million of its paid-in capital) to participating federal agencies to pay the subsidy costs and, if appropriate, other costs of this program.

The U.S. community adjustment window is designed to ensure broad public participation. An Advisory Committee, that will include low income community representatives and non-government organizations, will be created to provide advice on critical issues and the program's guidelines. Through appointment of an ombudsman, the program will establish procedures for responding to the public and providing independent inspection of the operations of the window.

NADBANK FUNDING -- POINT-OF-ORDER?

Question: Is the funding mechanism for the first year advance appropriations a violation of the Rules of the House?

Answer: The House Rules Committee has voted to include in the rule for NAFTA a waiver of a technical point of order concerning appropriations for the first year of the NADBank. With this waiver, there is no longer any violation of House rules.

In the absence of the waiver, a point of order could be raised against the bill because the bill includes appropriations on an authorizing bill. However, there is a strong basis for seeking a waiver of this rule in the case of fast-track consideration of NAFTA.

Fast-track procedures for a legislative issue dictate that there is only one piece of legislation that can be voted on for that item. This affords fast-track protection to all facets of the legislation. Any facets of the legislation that are necessary and appropriate for implementing the legislative goals are allowed to be and need to be included in that single piece of legislation. The NADBank -- including its appropriation for at least one year -- are necessary provisions for implementing NAFTA. They provide for capitalizing larger amounts of funding that are needed to address critical border environmental and infrastructure issues, as well as community development issues. Such funding could not be begun without at least one year's appropriation locked in.

Therefore, if this appropriation for the first year of NADBank, is to be accorded fast-track protections, it must be included on the NAFTA authorizing statute. Since such inclusion could be subject to a point-of-order, the waiver of the point-of-order becomes both necessary and justified.

CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Robert D. Reischauer
Director

November 4, 1993

Honorable Daniel Patrick Moynihan
Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

At the request of the committee staff, the Congressional Budget Office has reviewed the draft language of the North American Free Trade Agreement Implementation Act. We received this draft on November 4 and we understand that it represents the final form of the legislation that the Administration intends to submit.

The attached table shows our estimates of the changes in revenues and direct spending that would result from enactment of this legislation over the 1994-1998 period. (The changes in tax revenues from the electronic fund transfer system were estimated by the Joint Committee on Taxation.) We have not yet completed our estimate of the costs that would be subject to appropriations action.

Section 12(c) of the concurrent resolution on the budget requires a determination of any legislative proposal's effect on the deficit for fiscal years 1999 through 2003. CBO estimates that this bill would not increase the deficit over this period.

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To Ira Shapiro	From Marcia Miller
Co. USTR	Co. Senate Finance
Dept.	Phone # 224-4515
Fax # 395-3639	Fax # 228-5568

November 4, 1993

CBO ESTIMATES OF CHANGES IN REVENUES AND DIRECT SPENDING ASSOCIATED WITH NAFTA, 1994-1998 (by fiscal year, in millions of dollars)[a]

		1994	1995	1996	1997	1998	Five-Year Total
Changes in Revenues (Net)							
Reduction in Tariff Rates		-214	-489	-547	-609	-672	-2,531
Electronic Federal Tax Deposit System[b]:	On-Budget	49	262	272	371	1,207	2,161
	Off-Budget	23	116	135	146	701	1,121
Customs Enforcement Initiative		17	22	22	23	23	107
Customs Modernization Provisions		-3	-3	-3	-3	-3	-15
Changes in Outlays							
Increases in Customs Fees (offsetting receipts)		-93	-203	-221	-241	0	-758
Increased Spending for Current Trade Adjustment Assistance Program[c]		10	25	25	20	25	105
New Trade Adjustment Assistance Benefits		d	7	8	9	9	33
Effects on Agricultural Price Support Programs		-64	-86	-66	-1	33	-184
North American Development Bank		0	54	2	0	0	56
Customs Modernization Provisions		-5	-5	-5	-5	-5	-25
Effect on Deficit							
Net Increase or Decrease (-) in Deficit:	On-Budget	-1	0	-1	0	-493	-495
	Off-Budget	-23	-116	-135	-146	-701	-1,121

a. This table does not include any discretionary spending that would be associated with NAFTA.
b. Estimate provided by the Joint Committee on Taxation.
c. Trade adjustment assistance (TAA) for training costs is currently limited by law to a maximum of $80 million a year. This estimate assumes that this cap is maintained. If it were raised or eliminated, CBO estimates that TAA costs resulting from NAFTA would be a total of $25 million higher over the 1994-1998 period than shown above.
d. Less than $500,000.

Honorable Daniel Patrick Moynihan
Page 2

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contacts are Richard Kasten (for revenues), who can be reached at 226-2690, and Robert Sunshine, who can be reached at 226-2860.

Sincerely,

Robert D. Reischauer
Director

cc: Honorable Bob Packwood
Ranking Minority Member