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Collection/Record Group: Clinton Presidential Records
Subgroup/Office of Origin: Council of Economic Advisers
Series/Staff Member: Laura D'Andrea Tyson
Subseries:

OA/ID Number: 5060
FolderID:

Folder Title:
NAFTA [North American Free Trade Agreement] [Folder 4] [4]

Stack:	Row:	Section:	Shelf:	Position:
S	20	6	11	2

Withdrawal/Redaction Sheet

Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. memo	Sherman Robinson to Laura Tyson et al; re: NAFTA Failure Scenarios (1 page)	09/15/1993	P1/b(1)

COLLECTION:

Clinton Presidential Records
 Council of Economic Advisers
 Laura D'Andrea Tyson
 OA/Box Number: 5060

FOLDER TITLE:

NAFTA [North American Free Trade Agreement] [Folder 4] [4]

2017-0364-F
 jp3829

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

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EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

THE CHAIRMAN

October 8, 1993

MEMORANDUM FOR DORIS MATSUI
RAHM EMMANUEL

FROM:

LAURA TYSON *Laura Tyson*

The attached news item by Chip Jones is a misrepresentation of some general remarks I made in response to a question on the changing composition of U. S. trade over time. He quotes me correctly as observing that we have moved out of the export of shoes, apparel and furniture over time and that our challenge is one of gradually moving the American workforce into more secure higher wage jobs. But as I recall, I certainly did not say that NAFTA would be bad news for Virginia's textile workers and others who make shoes and furniture. He took a large journalistic leap --and a misleading one--in moving from my general observations about the changing composition of U. S. trade--to his conclusion that thousands of Virginia jobs will be threatened by NAFTA. As usual in my remarks on NAFTA, I emphasized that there would be net job gain, tiny dislocations effects, and more high-wage opportunities for the American workforce.

As far as Virginia's employment prospects in the furniture industry are concerned, it is important to emphasize that since virtually all U. S. furniture imports from Mexico already enter the United States duty free, NAFTA has little direct effect. On the other hand, both Mexico and Canada have tariffs on imports of furniture from the U. S. These tariffs are significant, and their removal should increase U. S. exports to Mexico significantly.

Since 1986, when Mexico started lowering its tariffs unilaterally, U. S. exports of household furniture to Mexico have grown rapidly, as have furniture exports generally. In addition, U. S. imports of furniture from Mexico have also grown, so there has been an increase in two-way trade in household furniture with Mexico.

The recent experience of a Virginia furniture manufacturer, Pulaski Furniture Corp is illustrative.

"The Mexican market is extremely important to Pulaski Furniture. In fact, Mexico is the company's third largest market. The company's total export sales have skyrocketed over the past six years, growing by 78 percent to reach a total of \$9.8 million in 1992. Approximately 10 percent of these sales are attributed to Mexico."

"Pulaski Furniture's Mexican sales directly support 250 U. S. jobs. In order to keep pace with Mexican demand, the company has increased its purchases of raw materials from its U. S. suppliers. These increased purchases support five more U. S. jobs within the company."

482-3421

RICHMOND TIMES DISPATCH

September 30, 1993

Would NAFTA affect Va. firms?

Clinton adviser says prospects mixed.

BY CHIP JONES

Times-Dispatch Staff Writer

The proposed North American Free Trade Agreement would help Virginia's heavy industries but hurt the state's textile, apparel and furniture companies, the chairwoman of President Clinton's Council of Economic Advisers said yesterday.

Dr. Laura Tyson said in a telephone news conference that NAFTA would boost Virginia companies that make transportation equipment, industrial machinery, primary metals, plastics and chemicals.

She declined to name particular companies, but many of the Richmond area's major employers fit her description: Reynolds Metals Co., DuPont Co. and AlliedSignal Corp. all make materials that have a variety of industrial uses.

Lawrence A. Bossidy, chairman and chief executive officer of AlliedSignal, has been a NAFTA booster. Bossidy, whose company has two manufacturing plants and a research complex in Chesterfield County and Hopewell, testified this month before a House subcommittee on behalf of the trade agreement.

Virginia has about 1,900 jobs that are supported by exports to Mexico, said Tyson, who added the total likely would increase if the trade agreement is signed.

Tyson acknowledged that NAFTA would be bad news for the state's 39,000 textile workers and thousands of other people who makes clothes, shoes and furniture.

"We've moved out of the export of shoes and apparel," said Tyson, a former economics professor at the University of California at Berkeley. "Our challenge is to move people into high-wage industries."

By lowering the remaining trade barriers in Mexico, Tyson said, U.S. manufacturers will have more incentive to keep plants in this country.

While some job sectors will be hurt by NAFTA, Tyson said her projections show a net gain of 250,000



THE FORECAST. Dr. Laura Tyson says the treaty would create jobs.

American jobs by 1998.

"Mexico is a very poor country, but on a per capita basis, Mexicans buy more from the U.S. than the Japanese, she said. Last year, Mexicans spent \$450 per capita on U.S. imports; the Japanese, \$385.

Tyson acknowledged that NAFTA has been a hard sell in Congress. During last year's presidential race, Texas businessman Ross Perot said the trade agreement would create a "gunning sound" of jobs leaving the country. Labor unions also have opposed the bill.

Faced with opposition, the Clinton administration has been enlisting support from the likes of Bossidy and former Chrysler chief Lee Iacocca.

Former Virginia Gov. Gerald L. Baliles also has lobbied for NAFTA and said recently that "the gun sucking sound you hear is most likely the vacuum of knowledge that to many are eager to exploit."

Gov. L. Douglas Wilder, a fellow Democrat, has spoken against the agreement.

KEVIN:
WHAT IS GOING ON?
IS THERE SOMETHING
WE SHOULD DO?



JIG
GAND

Brace Miller
Office Director
Industrial Trade Staff
Trade/Development

Donald Hodgen
482-3346 (voice)
482-3981 (fax)

"High-tech" furniture
companies.

THE WHITE HOUSE
WASHINGTON

October 7, 1993

MEMORANDUM FOR LAURA TYSON

From: Doris Matsui
Subject: Recent Article on NAFTA

As you might know, Public Liaison has been bringing in businesses from various industries to answer questions and build support around NAFTA. On Tuesday, representatives from the American Furniture Manufacturers Association (AFMA) were briefed by the Vice President, Secretary Bentsen and Bill Daley. They left the White House very excited to work on our behalf for NAFTA. However, the AFMA became very concerned after seeing a September 30 Richmond Times Dispatch article which indicates that NAFTA would hurt the furniture business.

The AFMA is under the impression that the furniture business will not be affected by NAFTA. In an effort to respond to the AFMA's concern we need confirmation from you as to the effects of NAFTA on the furniture business. Please feel free to call me or have someone on your staff call me on this matter, 456-2930.

Thank you for your help.

cc: Tom O'Donnell

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Tyson acknowledged that NAFTA has been a hard sell in Congress. During last year's presidential race, Texas businessman Ross Perot said the trade agreement would create a "sucking sound" of jobs leaving the country. Labor unions also have opposed the bill.

Faced with opposition, the Clinton administration has been enlisting support from the likes of Bossidy and former Chrysler chief Lee Iacocca.

Former Virginia Gov. Gerald L. Baliles also has lobbied for NAFTA and said recently that "the giant sucking sound you hear is most likely the vacuum of knowledge that too many are eager to exploit."

Gov. L. Douglas Wilder, a fellow Democrat, has spoken against the agreement.

Labor Take Note: Nafta Means Jobs For U.S. Workers

By JIM WRIGHT

What is best for America's working men and women? That is the standard by which I judged literally hundreds of decisions over the 34 years I served in Congress. A lifelong advocate of percolate-up economics, I have never believed in trickle-down.

The buying power of this country's wage earners is the oil that lubricates the machinery of our national prosperity, and whatever promotes that end is in America's best interest.

On the basis of that fundamental philosophy, I support the North American Free Trade Agreement. After much study and more than 20 trips to Mexico in the past five years, I have concluded that Nafta serves the long-term cause of American labor.

If the net impact of Nafta were to reduce jobs or depress wages in the U.S., that result would be bad for everyone. What I see happening in Mexico tells me the new relationship will create the reverse effect: lifting wages and conditions of work in Mexico while creating more jobs in both countries.

* * *

The following considerations support that conclusion:

- To create more jobs in today's world, the U.S. must export more. Automation and corporate downsizing are taking as many as 10,000 jobs out of the marketplace each month. Without the artificial stimulus of Cold War military spending, the U.S. cannot hope to sustain its present level of employment unless we sell more U.S.-made goods abroad.

- Our natural outlet for exports is in the growing markets of the Western Hemisphere. Closer ties are in our economic interest. With tight regional trading blocs developing in Europe and Asia, it makes sense to close ranks with our neighbors to the south.

Roughly 70 cents of every Mexican dollar spent on imports pays for U.S.-produced wares. Clearly an economic revival south of the border would expand the markets for our products and increase job opportunities in the U.S.

An old Mexican aphorism insists that whenever the U.S. sneezes, Mexico comes down with pneumonia. The converse is true as well. When Latin America falls into economic decline, it hurts us by drying up markets for our manufactured goods. And when Mexico prospers, we prosper.

In just the past six years, U.S. trade with Mexico has more than tripled, to our country's benefit. In 1986, about 274,000 U.S. wage earners were employed producing products for Mexican consumption. Last year, that figure had grown to almost 700,000. It is the healthiest trade surplus we enjoy with any country.

- Contrary to popular myth, wages and working conditions have been moving steadily upward in Mexico. From 1988 to 1992, real compensation for Mexican workers rose 19.3%. Meanwhile, under Mexico's economic solidarity pact, wage and price restraints have brought the annual inflation rate down dramatically—from a staggering 150% to just over 5%.

On Sunday, President Salinas announced a 9.5% increase in the minimum wage, and productivity increases at Ford's three major production facilities as well as elsewhere are boosting workers' buying power this year by about 15%.

A middle-income class is emerging in Mexico, so long afflicted by extremes of wealth and poverty. The result is more and better customers for its own goods as well as ours.

- Like it or not, our quality of life is linked increasingly to the well-being of the countries to our south. Halting the flow of drugs depends upon the stability of governments in Mexico, Colombia and elsewhere. And the only antidote to a tidal influx of undocumented workers into our country is the dramatic improvement of job opportunities in Mexico.

- Like many in Congress today, I hate to see U.S. factories lured out of the U.S. by cheap wages. The U.S. has already suffered that in the movement of plants to Singapore, Taiwan, Korea, Malaysia, even mainland China. To the extent corporate heads are drawn to invest in other countries, it is far better from our own selfish standpoint that those dollars go to Mexican or Canadian workers who spend a bigger share of their wages on American-made goods.

* * *

- Actually, with Nafta fully in place, U.S. manufacturers will be less likely than at present to transfer production into Mexico. Take the automobile industry. For years Mexico has arbitrarily limited the importation of U.S.-made cars to only 1,000 a year. With Nafta, that restriction will be lifted. General Motors executive Bill Hogland believes U.S. auto makers can quickly sell one million U.S.-built cars in Mexico. That would equal about 15,000 more jobs in this country.

Or take computers, for which Mexico is our second largest export customer. Those sales came to \$1.3 billion last year. Today the 20% import fees tempt companies like IBM and Tandy to open plants in Mexico to avoid the duty. Under Nafta, that import charge will be phased out over five years. The incentive to move U.S. production facilities southward will disappear.

- The most important consideration is the backlash of disillusionment that will spread throughout Mexico and Latin America if the U.S. rejects Nafta. Our rejection will be interpreted as embracing the unfortunate stereotypical slurs of vocal treaty opponents who portray Mexicans and their leaders as indolent, ignorant and corrupt. They are none of these.

Not in the past 75 years has Mexico's elected leadership been so staunchly and outspokenly pro-U.S. If we drive Mexico back into a shell of high tariffs and sheltered industries, our opportunity to seize and shape the future may not recur.

Mr. Wright, a Texas Democrat, served in the House from 1955 to 1989. He was speaker from 1987 to 1989.

PHOTOCOPY
PRESERVATION

LABOR TAKE NOTE:

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CUADRO 1.9 - COMPARACION DE LOS RESULTADOS PRINCIPALES DE LAS PROYECCIONES 1993-1998

	1993	1994	1995	1996	1997	1998
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PREPARADA PARA LA LXXVIII JUNTA TRIMESTRAL DEL 14-16 DE JULIO DE 1993, AUSPICIADA POR LA DIRECCION GENERAL DE FOMENTO ECONOMICO DEL GOBIERNO DEL ESTADO DE CHIHUAHUA Y DESARROLLO ECONOMICO DEL ESTADO DE CHIHUAHUA. CHIHUAHUA, CHIH. CENTRO DE INVESTIGACION ECONOMETRICA DE MEXICO. 150 MONUMENT RD., SUITE 101, BALA CYNWYD, PA 19004. TELEFONO (215) 667-7740. PARA USO EXCLUSIVO DE LOS SUSCRIPTORES. PROHIBIDA LA REPRODUCCION TOTAL O PARCIAL, SIN AUTORIZACION ESCRITA PREVIA.

CUADRO 1.8 - PRINCIPALES MACROINDICADORES ALTERNATIVA 3
(CUADRO RESUMEN)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
1 Producto Interno Bruto									
2 PIB Real (M.Mill.Pesos 1980)	5271.54	5462.73	5607.49	5704.10	5813.44	5990.05	6229.81	6498.55	6765.70
3 TASA (%)	4.4	3.6	2.6	1.7	1.9	3.0	4.0	4.3	4.1
4 Sector Primario	408.81	412.74	412.19	414.73	418.83	432.78	451.44	471.33	491.69
5 TASA (%)	5.9	1.0	-0.1	0.6	1.0	3.3	4.3	4.4	4.3
6 Sector Secundario	1738.50	1796.86	1846.57	1876.64	1921.40	1997.29	2086.99	2190.78	2290.71
7 TASA (%)	5.7	3.4	2.8	1.6	2.4	3.9	4.5	5.0	4.6
8 Sector Terciario	3124.23	3253.12	3354.16	3412.73	3473.21	3559.99	3691.38	3836.44	3983.29
9 TASA (%)	3.6	4.1	3.1	1.7	1.8	2.5	3.7	3.9	3.8
10 PIB en Dólares(M. Mill. Dólares)	244.51	287.74	334.35	383.38	420.51	458.38	512.74	572.17	635.79
11 TASA (%)	18.2	17.7	16.2	14.7	9.7	9.0	11.9	11.6	11.1
12 PIB Nominal (M.Mill.Pesos)(**)	686406	865166	1033224	1211731	1448002	1737788	2122229	2585081	3130230
13 TASA (%)	35.2	26.0	19.4	17.3	19.5	20.0	22.1	21.8	21.1
14 Oferta Monetaria									
15 M1 (M. Mill. Ps) (***)	51048	112183	131221	150403	176351	207757	246296	292680	345710
16 TASA(%)	62.6	119.8	17.0	14.6	17.3	17.8	18.5	18.8	18.1
17 M4 (M. Mill. Ps) (***)	296419	387982	466112	551566	677065	826222	1024132	1280556	1585711
18 TASA(%)	46.4	30.9	20.1	18.3	22.8	22.0	24.0	25.0	23.8
19 Indices de Precios (1980=1.0)									
20 Deflactor del PIB	130.2	158.4	184.3	212.4	249.1	290.1	340.7	397.8	462.7
21 TASA (%)	29.5	21.6	16.3	15.3	17.3	16.5	17.4	16.8	16.3
22 Consumidor Nacional	150.6	184.7	213.3	237.0	269.1	305.2	347.1	393.4	443.3
23 Promedio	26.7	22.7	15.5	11.1	13.5	13.4	13.7	13.3	12.7
24 Fin de Período	29.9	18.8	11.9	9.8	13.8	13.2	13.6	13.1	12.8
25 TASA (%)									
26 Mercado Cambiario (***)									
27 Tipo Libre: (Compra-Venta)									
28 Valor Promedio Anual	2838.36	3016.16	3094.08	3.1640	3.4468	3.7947	4.1428	4.5223	4.9280
29 TASA (%)	14.3	6.3	2.6	2.3	8.9	10.1	9.2	9.2	9.0
30 Valor Fin de Período	2943.15	3074.95	3118.65	3.2651	3.6301	3.9643	4.3267	4.7236	5.1381
31 TASA (%)	9.8	4.5	1.4	4.7	11.2	9.2	9.1	9.2	8.8
32 Sector Externo (M.Mill.Dols.)									
33 Balanza Cuenta Corriente	-7.114	-13.789	-22.809	-22.718	-21.909	-20.471	-17.965	-13.683	-8.658
34 Deuda Externa Total	101.859	104.828	98.915	105.498	112.128	118.220	125.085	130.935	135.043
35 Deuda Pública Externa Total	77.770	79.988	75.755	79.336	82.449	85.156	88.399	90.481	92.112
36 Sector Público (M.Mill Ps. 1980)									
37 Gasto Público (Ctas. Nac.)	836.31	846.86	842.74	838.80	862.99	875.89	908.08	944.04	978.85
38 TASA (%)	5.4	1.3	-0.5	-0.5	2.9	1.5	3.7	4.0	3.7
39 Como porcentaje del PIB									
40 Balance Financiero	-3.9	1.8	3.4	1.4	-0.1	-0.3	-0.2	-1.1	-1.5
41 Balance Económico Primario	6.6	8.4	8.5	5.8	4.4	3.6	2.6	1.3	0.8
42 Sector Laboral									
43 Salario Medio Anual/Trab.									
44 (****)									
45 Nominal (Miles de Pesos)	7476.0	9406.8	11916.6	13309.1	15338.2	17667.5	20410.3	23508.0	26949.0
46 TASA (%)	29.1	25.8	26.7	11.7	15.2	15.2	15.5	15.2	14.6
47 Real (Índice 1980=1.0)	0.62	0.64	0.70	0.70	0.72	0.73	0.74	0.75	0.76
48 TASA (%)	1.9	2.6	9.7	0.5	1.5	1.6	1.6	1.6	1.7
49 Empleo (Mil.Personas)									
50 Empleo Sector Formal	22.584	22.697	22.636	22.436	22.304	22.463	22.810	23.252	23.708
51 TASA (%)	1.1	0.5	-0.3	-0.9	-0.6	0.7	1.5	1.9	2.0
52 Desempleo Abierto (%)	8.3	8.3	8.7	9.7	10.9	11.7	12.3	12.8	13.2

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CUADRO 1.5 - PRINCIPALES MACROINDICADORES PROYECCION BASICA
(CUADRO RESUMEN)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
1 Producto Interno Bruto									
2 PIB Real (M.Mill.Pesos 1980) (*)	5271.54	5462.73	5607.49	5738.56	5959.33	6212.35	6553.66	6941.16	7344.52
3 TASA (%)	4.4	3.6	2.6	2.3	3.8	4.2	5.5	5.9	5.8
4 Sector Primario	408.81	412.74	412.19	415.32	426.86	445.49	468.06	492.27	518.04
5 TASA (%)	5.9	1.0	-0.1	0.8	2.8	4.4	5.1	5.2	5.2
6 Sector Secundario	1738.50	1796.86	1846.57	1890.12	1972.98	2077.94	2207.52	2354.65	2502.94
7 TASA (%)	5.7	3.4	2.8	2.4	4.4	5.3	6.2	6.7	6.3
8 Sector Terciario	3124.23	3253.12	3354.16	3433.11	3559.49	3688.91	3878.07	4094.24	4323.54
9 TASA (%)	3.6	4.1	3.1	2.4	3.7	3.6	5.1	5.6	5.6
10 PIB en Dólares(M. Mill. Dólares)	244.51	287.74	334.35	383.85	433.71	485.24	547.95	622.96	706.12
11 TASA (%)	18.2	17.7	16.2	14.8	13.0	11.9	12.9	13.7	13.3
12 PIB Nominal (M.Mill.Pesos)(**)	686406	865166	1033224	1209597	1414180	1653058	1946870	2304332	2715086
13 TASA (%)	35.2	26.0	19.4	17.1	16.9	16.9	17.8	18.4	17.8
14 Oferta Monetaria									
15 M1 (M. Mill. Ps) (**)	51048	112183	131221	149198	172201	198759	230230	267254	308004
16 TASA(%)	62.6	119.8	17.0	13.7	15.4	15.4	15.8	16.1	15.2
17 M4 (M. Mill. Ps) (**)	296419	387982	466112	545354	663794	794261	957754	1161019	1384407
18 TASA(%)	46.4	30.9	20.1	17.0	21.7	19.7	20.6	21.2	19.2
19 Indices de Precios (1980=1.0)									
20 Deflactor del PIB	130.2	158.4	184.3	210.8	237.3	266.1	297.1	332.0	369.7
21 TASA (%)	29.5	21.6	16.3	14.4	12.6	12.1	11.6	11.8	11.4
22 Consumidor Nacional	150.6	184.7	213.3	234.2	256.6	281.1	307.3	335.0	362.2
23 Promedio TASA (%)	26.7	22.7	15.5	9.8	9.5	9.5	9.3	9.0	8.1
24 Fin de Período TASA (%)	29.9	18.8	11.9	8.7	9.4	9.2	9.1	8.8	8.0
25 Mercado Cambiario (***)									
26 Tipo Libre: (Compra-Venta)									
27 Valor Promedio Anual	2838.36	3016.16	3094.08	3.1549	3.2642	3.4102	3.5565	3.7026	3.8486
28 TASA (%)	14.3	6.3	2.6	2.0	3.5	4.5	4.3	4.1	3.9
29 Valor Fin de Período	2943.15	3074.95	3118.65	3.1915	3.3375	3.4835	3.6299	3.7759	3.9219
30 TASA (%)	9.8	4.5	1.4	2.3	4.6	4.4	4.2	4.0	3.9
31 Sector Externo (M.Mill.Dols.)									
32 Balanza Cuenta Corriente	-7.114	-13.789	-22.809	-23.902	-27.046	-27.338	-28.112	-27.359	-24.786
33 Deuda Externa Total	101.859	104.828	98.915	109.154	119.363	128.975	139.182	147.814	154.566
34 Deuda Pública Externa Total	77.770	79.988	75.755	81.109	85.752	89.681	94.155	97.267	99.882
35 Sector Público (M.Mill Ps. 1980) (*)									
36 Gasto Público (Ctas. Nac.)	836.31	846.86	842.74	846.45	881.85	914.12	960.41	1012.06	1063.56
37 TASA (%)	5.4	1.3	-0.5	0.4	4.2	3.7	5.1	5.4	5.1
38 Como porcentaje del PIB									
39 Balance Financiero	-3.9	1.8	3.4	1.3	-0.1	-0.2	-0.9	-1.9	-2.3
40 Balance Económico Primario	6.6	8.4	8.5	5.4	3.8	2.8	1.4	0.1	-0.3
41 Sector Laboral									
42 Salario Medio Anual/Trab.									
43 (****)									
44 Nominal (Miles de Pesos)	7476.0	9406.8	11916.6	13265.0	14895.3	16748.5	18844.0	21166.8	23625.9
45 TASA (%)	29.1	25.8	26.7	11.3	12.3	12.4	12.5	12.3	11.6
46 Real (Indice 1980=1.0)	0.62	0.64	0.70	0.71	0.73	0.75	0.77	0.79	0.82
47 TASA (%)	1.9	2.6	9.7	1.4	2.5	2.6	2.9	3.0	3.3
48 Empleo (Mil.Personas)									
49 Empleo Sector Formal	22.584	22.697	22.636	22.525	22.726	23.037	23.604	24.285	24.990
50 TASA (%)	1.1	0.5	-0.3	-0.5	0.9	1.4	2.5	2.9	2.9
51 Desempleo Abierto (%)	8.3	8.3	8.7	9.6	10.4	11.0	11.3	11.5	11.6

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Long-Term Outlook for the Mexican Economy With and Without a NAFTA*

Lucinda Vargas

This analysis of NAFTA's impact on the Mexican economy covers the period 1992-2002 and is based on results obtained from CIEMEX-WEFA's econometric model of Mexico. An alternative scenario considers Mexico's economic outlook under the assumption that a NAFTA does not materialize. The purpose of looking at Mexico's economic future with and without a NAFTA is to evaluate quantitatively the solidness of the Mexican economy in the absence of the much-awaited free-trade deal between Mexico and its developed-country counterparts in North America. Thus, this analysis attempts to address the following question: If the NAFTA does not come through, will Mexico still be an attractive and healthy economy 10 years from now?

Scenario With NAFTA

The anticipation and materialization of a NAFTA — which we assume will be ratified in mid-1993 and implemented in 1994 — has a favorable impact on Mexico. A NAFTA allows for a dynamic pattern of capital inflows, pushing economic growth to rates above 5%, on average, during the period 1992-2002. In addition, a NAFTA helps in the anti-inflation effort, as the inflation rate is finally brought down to single digits. In essence, a NAFTA facilitates the achievement of Mexico's twin goals: high, sustained economic growth and price stability.

Scenario Without NAFTA

A no-NAFTA scenario considers the possibility of an unfavorable U.S. congressional vote on the agreement. Although we assign only a slight probability to this event (20%), analyzing a Mexico without a NAFTA allows us to see just how solid the economic fundamentals are in the absence of what seems a key and final step in Mexico's restructuring and economic liberalization process.

Mexico would undoubtedly face some short-term obstacles if a NAFTA is rejected. Initially, the lack of

a NAFTA makes capital markets react negatively, forcing the authorities to take a more flexible stance on exchange rate policy. After this immediate effect, however, the absence of a NAFTA does not prove catastrophic for Mexico. Investment flows resume an upward trend, though their levels are below those achieved with a NAFTA. Still, the economy without a NAFTA manages to show a healthy average annual growth rate of 4.2% during 1992-2002. Inflation, though not reduced to the single-digit range as in a NAFTA scenario, registers a low-two-digit rate.

Forecast Highlights: A Comparison of the Two Scenarios

The forecast results for the NAFTA and no-NAFTA scenarios are summarized in Table 3.1. Some highlights are as follows:

Growth. With a NAFTA, real GDP registers a 5.4% annual average growth rate during 1992-2002. The corresponding growth rate without a NAFTA is 4.2%, or 1.2% below the NAFTA scenario. So although higher growth results through a NAFTA, Mexico still grows at respectable rates without a NAFTA. However, if the 1.2% annual difference between the two

*Presentation given on June 25, 1992, at the University of Texas at Austin, as part of the Mexican Business Program seminar series organized by the University of Texas at Austin and the Instituto Tecnológico y de Estudios Superiores de Monterrey-Mexico City campus.

Table 3.1
The NAFTA's Macro Impact on the Mexican Economy, 1992-2002⁽¹⁾
average annual rates

	Without NAFTA	With NAFTA	Difference
Real GDP (%)	4.2	5.4	1.2
Consumer Price Index (%)	14.5	9.7	-4.8
Private Investment (%)	9.6	10.7	1.1
Foreign Direct Investment (billion dollars)	6.0	9.2	3.2
Three-month Mexican Treasury Bills (%)	18.3	13.0	-5.3
Nonoil Merchandise Exports (%)	12.9	14.7	1.8
Merchandise (%)	8.3	10.4	2.1
Current Account (billion dollars)	-10.7	-14.9	4.2
Capital Account (billion dollars)	10.6	14.7	4.1
Deported Mexican Workers (Thousands) ⁽²⁾	1,586	1,289	-297
Undocumented Mexican Migration (Thousands) ⁽²⁾ and ⁽³⁾	3,172	2,578	-594

Notes:

⁽¹⁾ Assumes the implementation of the NAFTA in early 1994. Includes a ten year gradual removal of tariff and nontariff barriers. Increases in foreign direct investment flows are assumed to be channeled to export-oriented industries.

⁽²⁾ At the end of 2002.

⁽³⁾ Based on the assumption that, for every Mexican deported, two enter the U.S. legally. Preliminary estimates, not to be reproduced or quoted without prior written permission.

scenarios is accumulated over the 10-year period 1992-2002, the NAFTA allows for a real GDP level 12% higher by 2002 than that achieved without a NAFTA.

Inflation. The much-hoped-for single-digit inflation rate is achieved (though barely) with a NAFTA, as the average annual increase in the price level totals 9.7% during 1992-2002. Without a NAFTA, it becomes harder to bring prices below the two-digit rate since the NAFTA's absence takes away some of the downward pressure on prices derived from greater import competition. Still, even without a NAFTA, Mexico is able to manage a somewhat low two-digit inflation rate, 14.5%.

Exchange Rate. With a NAFTA, our assumption for foreign exchange rate policy is that the 40-centavo-per-day depreciation of the peso's sell rate will

continue through 1993. The buy rate, which has been fixed at 3051.20 pesos per dollar since November 1991, will remain unaltered this year. Exchange rate policy will turn more flexible only in 1994, when the buy rate will join the sell rate in experiencing a 40-centavo daily slide against the dollar (which will then, in "new" peso terms, be equivalent to 4 one-hundredths of a centavo). This move will coincide with the initiation of the NAFTA. In the event the NAFTA is rejected, a reduction in capital inflows, and consequently in international reserves, is expected at the time of such an announcement at midyear. These developments will place pressure on exchange rate policy, and the authorities react by widening the peso's flotation band for both the buy and sell rates: the daily rate of depreciation is raised to 80 centavos as of July 1993.

Private Investment. During 1992–2002, the average annual growth of private investment is 10.7% with a NAFTA and 9.6% without a NAFTA. As with real GDP growth, the situation for private investment is more attractive with a NAFTA, yet it's by no means disastrous without a NAFTA. Under the no-NAFTA scenario, news of a NAFTA rejection does bring a brief downturn in investment (1993–94). However, investment thereafter resumes a positive trend, albeit at rates lower than under the NAFTA scenario.

Foreign Direct Investment. Focusing on the foreign direct investment component of private investment, we find that the NAFTA, once again, acts as a catalyst to spur foreign direct investment to annual levels higher than would otherwise be. With a NAFTA, foreign direct investment levels average \$9.2 billion a year during 1992–2002, while without a NAFTA, the average level is a lower \$6.0 billion. Although foreign direct investment does experience a short-term dip in the no-NAFTA scenario — falling from a level of \$4.38 billion in 1992 to \$3.44 billion in 1993 and \$3.80 billion in 1994 — it recovers beginning in 1995, when the level goes back up to \$4.28 billion.

Moreover, the \$6 billion average for foreign direct investment achieved over the long term in the no-NAFTA scenario reflects an improvement relative to the foreign direct investment picture of recent years. For example, during 1989–91 — the first three years of the Salinas administration — foreign investment rose to an average level of \$3.9 billion a year. Comparing the foreign direct investment picture without a NAFTA against a greater historical perspective, the no-NAFTA scenario shows an average level four times higher than the \$1.5 billion annual average recorded during 1983–88. Thus, even if Mexico is unable to consolidate its trade opening with a full-fledged free-trade agreement with its North American partners, the substantial unilateral trade opening Mexico has undertaken so far has already produced the positive reaction expected from foreign investors. In addition, a no-NAFTA scenario still assumes a trajectory of freer trade and investment measures — that is, a further opening relative to the current situation. For instance, a new and more open foreign investment law will come to pass even if a NAFTA doesn't. Thus, foreign investors should still be attracted to a scenario that

affords multiple opportunities, even if those opportunities do not come via a NAFTA.

Three-Month CETES (Mexican Treasury Bills). A NAFTA allows for lower real rates of interest. Three-month CETES will average a real rate of 3.3% on an annual basis during 1992–2002 under a NAFTA scenario. Without a NAFTA, the rate is a higher 3.8%. Essentially, two developments under a NAFTA produce a situation of lower real interest rates. First, the NAFTA will bring greater competition from foreign financial institutions, pushing the cost of money downward. Second, NAFTA generates greater certainty and confidence among economic agents, who perceive Mexico as a lower investment than in a no-NAFTA situation. Consequently, the interest rate, or premium, that Mexico would have to pay investors is lower in the NAFTA case.

Nonoil Merchandise Exports. A more dynamic growth trend is expected for nonoil merchandise exports with a NAFTA than without. This export subcategory is expected to average 14.7% growth per year during 1992–2002 with a NAFTA versus 12.9% growth without a NAFTA. The 1.8% differential between the two cases is minimal, however. In the absence of a NAFTA, Mexico is still expected to work toward promoting its exports. First, the industrial reconversion currently under way will continue, establishing a more competitive and export-oriented production structure in Mexico regardless of NAFTA developments. Also, foreign exchange rate policy is expected to be more flexible without a NAFTA, as the authorities will be careful to maintain Mexico's export competitiveness.

Merchandise Imports. As expected, a NAFTA allows for a greater penetration of imports. Average growth of merchandise imports is 10.4% per year during 1992–2002 under a NAFTA. Without a NAFTA, growth is in single digits, 8.3%, as the lower economic growth resulting from this scenario dampens the country's ability to import. Also, without a NAFTA, imports are not expected to flow in as easily since existing tariffs would probably be preserved or would take longer to be reduced or eliminated.

Current Account. The more dynamic performance of imports in the NAFTA scenario brings about a higher current account deficit. Thus, while the cur-

rent account deficit averages an annual level of \$14.9 billion with a NAFTA, the deficit without a NAFTA is lower at \$10.7 billion.

Capital Account. The NAFTA spells out a more open trade and investment picture for Mexico. Although Mexico without a NAFTA is still expected to pursue a relatively open trade and investment route, a NAFTA adds a guarantee for investors that makes them more confident of the permanence of any new measures. Thus, the higher investment levels (especially foreign) expected with a NAFTA generates a higher surplus in the capital account. Whereas the NAFTA case shows an average \$14.7 billion capital account surplus per year during 1992-2002, the case without a NAFTA shows a lower average level of \$10.6 billion per year. In both cases, however, a "sufficient" surplus in the capital account finances the current account deficit.

Migration. A final impact considered in these NAFTA simulations was that on Mexican migration to the United States. Although migration is not directly addressed in the negotiated agreement, there are migration implications behind the agreement. Essentially, the flow of illegal immigrants from Mexico into the United States is expected to be reduced by a NAFTA. Mexican authorities have repeatedly stated that they are pursuing a NAFTA because it will improve employment opportunities at home and raise the general population's standard of living. It is because of the limited employment opportunities existing in Mexico relative to the size of its growing work force, and also because of the low wages in the country, that a sizable migration from Mexico to the U.S. has been the rule over the years.

A faster-growing economy with a NAFTA than without translates into more job opportunities in Mexico and, consequently, into a decreased possibility that workers will flow across the border. Our forecast results show that net migration from Mexico to the United States would indeed be reduced with a NAFTA in place, by about 60,000 persons annually during 1992-2002. This means that by the year 2002, there will be nearly 600,000 fewer undocu-

mented Mexicans in the United States. The assumption on migration incorporated into our model is based on 1977 estimates by U.S. immigration officials, who claim that for every apprehension of an illegal alien, two more succeed in entering the country.

Sectoral Impact

The question is often raised as to which sectors will be the winners and losers in a NAFTA scenario. Our simulations have considered the following aggregated sectors: agriculture, forestry, and fisheries; mining; manufacturing; construction; electricity; commerce (wholesale/retail trade); transportation and communications; financial services; and social services. Manufacturing, in turn, is subdivided into eight subsectors: food, beverages, and tobacco; textiles and apparel; lumber and wood products; paper and paper products; chemicals; nonmetallic minerals; basic metals; and machinery and equipment.

Although the model fails to capture the NAFTA's full impact on these sectors (it does not consider inter-industry relationships and gains from specialization and efficiency), it does capture the effects on production of the added investment and trade flows implied by NAFTA for each sector. Table 3.2 gives the performance of sectoral GDP with and without NAFTA over the period 1992-2002. Two groups can be identified here: those that gain either more than or less than the 1.2% rate of additional GDP growth provided by a NAFTA. Those sectors that gain above 1.2% can be labeled larger winners; those that gain at 1.2% or less can be labeled smaller winners. Thus, our simulations do not show any sectors as long-term losers if NAFTA is in place.

Certainly in the short term the NAFTA will mean contractions in production for some sectors owing to greater import competition and continued restructuring; yet our long-term view suggests that the NAFTA's ultimate impact on all sectors will be positive, since virtually all exhibit higher production growth rates with a NAFTA than without.

Table 3.2
Sectoral GDP: Large and Small Winners (No Losers)
average annual rates, 192-2002

	Without NAFTA	With NAFTA	Difference
Basic Metals	4.3	6.3	2.0
Construction	6.3	8.2	1.9
Machinery & Equipment	7.3	8.9	1.6
Transportation & Communication	5.6	7.1	1.5
Financial Services	4.6	6.1	1.5
Commerce	5.2	6.6	1.4
Agriculture, Forestry & Fishing	4.2	5.5	1.3
Electricity	6.4	7.7	1.3
Lumber & Wood Products	3.2	4.3	1.3
Paper & Paper Products	3.7	4.7	1.0
Nonmetallic Minerals	5.2	6.3	1.1
Mining	3.2	4.0	0.8
Textiles & Apparel	4.4	5.2	0.8
Social Services	2.8	3.6	0.8
Food, Beverages, & Tobacco	3.8	4.4	0.6
Chemicals	4.4	5.0	0.6

Conclusion

Our long-term simulation results point to NAFTA's favorable impact on the Mexican economy. Growth, investment, and trade are higher with NAFTA than without, while inflation is lower. GDP by sector is also pushed to higher rates with the NAFTA in place. Given that our model does not incorporate the dynamic effects of specialization gains, we feel that our results are on the conservative side. In other words, our estimates should be taken as the lower limits of any production gains achieved through NAFTA.

The same holds true for our assumption regarding capital flows. These flows may end up higher than what we have estimated here, and therefore even more positive results would be the case for the general numbers. Other factors keeping our results

on the conservative side are the gains derived from North American specialization rather than just Mexican specialization, as well as the greater domestic savings that would be forthcoming under a more open and competitive financial system.

Just as we see that the NAFTA has a favorable impact on the Mexican economy in the long term, we see also that the absence of a NAFTA does not prove catastrophic for Mexico. Without a NAFTA, the country is still able to achieve respectable growth rates with a relatively stable price level. Although investment and trade proceed less dynamically than with a NAFTA, they also still manage important growth rates without a NAFTA. In answer to the question posed at the beginning of this analysis, if the NAFTA does not come through, Mexico will still be an attractive and healthy economy ten years from now.

NATIONAL VENTURE CAPITAL ASSOCIATION
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Arlington, Virginia 22209
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NAFTA
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FROM: Dan Kingsley

ATTENTION OF: Laura D'Andrea Tyson

COMPANY: National Economic Council

FAX NUMBER: 395-6947 OFFICE NUMBER 395-5042

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Arlington, Virginia 22209

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Fax: 703/351-5268

September 13, 1993

William J. Clinton
President of the United States
The White House
1600 Pennsylvania Avenue, N.W.
Washington, DC 20500

Dear President Clinton:

I want to tell you how much, both personally and as President of the National Venture Capital Association, I enjoyed having lunch with you on September 8. Your willingness to share with us your goals on both NAFTA and health care was very much appreciated, as was your interest in our concerns.

The NVCA membership recognizes that the targeted capital gains initiative is a reality because of your determination to see it incorporated into the final reconciliation bill. As I mentioned at the luncheon, however, the corrective amendment relating to Section 212 expenses was not made part of the bill even though both the House and Senate approved this change in the 1992 tax bill and it continues to be a "noncontroversial and revenue neutral issue." Incorporation of the Section 212 change in your upcoming budget would cure this problem.

The second item I spoke with you about was the recent exposure draft from the Financial and Accounting Standards Board concerning the accounting treatment of stock options. I cannot stress how important this issue is to the companies we finance... the very companies which are generating jobs in America today.

FASB's proposed accounting rules will significantly reduce the amount of stock options granted to employees in growing companies and will be a serious impediment to their growth and **their ability to create additional jobs**. This clearly is contrary to your Administration's policy, nor is it necessary. When seven men in Connecticut, FASB, have one view of the world and the accounting firms, companies, stockholders and venture capitalists have a different view, I'm not sure you can call the result "generally accepted accounting principles" (GAAP). FASB is virtually independent, but the Securities and Exchange Commission can and should overturn FASB pronouncements which are irresponsible and damaging to this country. We need high level White House support on this crucial issue and hope that you will designate a member of your senior staff to see that this problem is resolved.

September 13, 1993

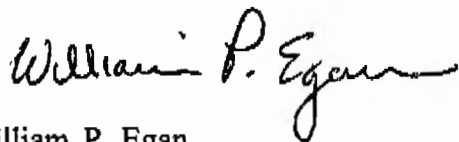
Page Two

Your vision for the United States is one of change and growth. Entrepreneurs and venture capitalists are agents of such change to create growth. Let's not let FASB make us take two steps back to move one step forward.

Again, thank you for your time. As a result of our talk, we have taken action to support you on NAFTA.

Sincerely,

NATIONAL VENTURE CAPITAL ASSOCIATION



William P. Egan
President

September 17, 1993

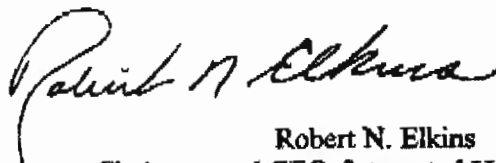
American Entrepreneurs for Economic Growth (AEEG) **ACTION ALERT**

*Notify Your Senators and Congressmen to Support the
North American Free Trade Agreement (NAFTA)*

FROM:



Edward R. McCracken
President and CEO, Silicon Graphics



Robert N. Elkins
Chairman and CEO, Integrated Health Services

Co-Chairmen, American Entrepreneurs for Economic Growth

ACTION REQUESTED: Urge the Senators and Congressmen where your business, where your employees and where you reside to support the North American Free Trade Agreement.

Addressing Correspondence:

To a Senator:
The Honorable (name)
United States Senate
Washington, DC 20510

Dear Senator _____:

To a Representative:
The Honorable (name)
U.S. House Of Representatives
Washington, DC 20515

Dear Congressman _____:

BACKGROUND:

A very large percentage of entrepreneurs support the idea of free trade. Anything that unleashes entrepreneurs to do what they do best . . . create jobs, produce innovative products and services, and locate new and changing markets . . . is good. The elimination of trade and investment barriers among Canada, Mexico and the United States will create a strategic economic alliance and the largest and richest market in the world.

Canada and Mexico are top U.S. customers, accounting for 30 percent of total U.S. exports. This year Mexico surpassed Japan as the second largest market for U.S. manufactured exports. Canada is our largest market.

NAFTA recognizes the increasing integration of the North American economies and removes barriers to trade and investment growth. Market access will be increased as Mexico will immediately eliminate tariffs on nearly 50% of all industrial goods imported from the U.S., including highly valued machine tools, medical equipment and electronic equipment. Simultaneously, NAFTA provisions provide timely, effective relief to American workers and firms needing time to adjust to imports from Mexico and Canada.

This agreement also will promote export-driven growth in America's high technology sector by providing the highest standards of protection for intellectual property - patents, trademarks, copyrights and trade secrets - available in any bilateral or international agreement.

A majority of Republican Senators and Congressmen support NAFTA. The Clinton Administration also favors the agreement. However, it is very uncertain at this juncture whether there are enough votes, particularly in the House of Representatives, to secure passage of NAFTA. Thus, your initiative in writing your Senators and Congressmen is extremely important.

MEMORANDUM

COUNCIL OF ECONOMIC ADVISERS

September 9, 1993

TO: LAURA TYSON
 ALAN BLINDER
 JOE STIGLITZ

FROM: SHERMAN ROBINSON

SUBJECT: Talking Points for NAFTA Cabinet Briefing

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 by June 85

Laura is scheduled to talk about "The Economic Imperative of NAFTA" along with Bob Rubin at a Cabinet Meeting tomorrow. A few talking points:

NAFTA is a trade agreement. It opens up Mexican markets to U.S. exports and U.S. markets to Mexican exports. Currently, Mexican import protection levels are much higher than U.S. levels —about 2.5 times as high (4% compared to 10%, not counting import quotas which are more pervasive in Mexico).

NAFTA is part of a process of globalization of production that has been going on for decades and is very much in the economic interests of the U.S. Since WW II, the U.S. has consistently supported the achievement of an open, multilateral trading system through various rounds of GATT negotiations, the formation of the U.S.-Canada free trade agreement, and the evolution of the European Common Market.

The experience of the last half-century indicates that these policies have been extremely successful. World trade has increased enormously, and trade has been a major "engine of growth" for the world economy. ~~Contrast this period with the 1930s where protectionism exacerbated and helped spread the great depression.~~ specialization and growth

NAFTA is consistent with our support of a liberalized world trading system under GATT. The idea is to be inclusive and to lower barriers, not to build a "Fortress North America." NAFTA and the new GATT agreement, which we intend to complete by December, will be complementary. It is certainly NOT in the interests of the U.S., or any other country, to have the world divide into inward-looking, regional, trading blocs. The sort of isolationism being preached by Pat Buchanan would be a disaster for the U.S. and the world. NAFTA is part of a consistent U.S. policy to open markets around the world and to foster increased trade, to the benefit of all. complete, not retreat

Mexico unilaterally lowered its protection against U.S. exports starting in the mid-1980s. Since then, U.S. exports to Mexico have shot up, rising 228% since 1986, reaching \$40.6 billion in 1992. These are significant numbers, supporting a lot of U.S. export jobs

(about 700,000 in 1992). With NAFTA, we expect further increases in U.S. exports, and more good, export-related jobs in the U.S.

U.S. protection against exports from Mexico has never been very high. Thus, further trade liberalization under NAFTA will benefit the U.S. more than Mexico. However, note that the protection levels are not very high in either country. The changes under NAFTA can be seen as the end of a process of trade liberalization that has been going on for some time. NAFTA is NOT a big shock, but part of an ongoing trend.

and to prosper - good for our exports

NAFTA is also an investment agreement. It will facilitate increased investment in Mexico that will enable Mexico to continue to open its economy. It will also remove Mexican requirements that U.S. companies locate in Mexico in order to sell there. Aggregate investment in Mexico should increase, but there will also be increased exports from the U.S. as U.S. companies find it more advantageous to produce here and sell there rather than be forced to produce there.

Blue printed stuff

For the U.S., virtually all studies agree that, in the words of the CBO report (Summary): "NAFTA should provide net economic gains to all three countries. Gains for the United States should be fairly small, although clearly large enough to outweigh the expected budgetary and private-sector costs that would follow in NAFTA's wake. Contrary to some commonly expressed concerns, NAFTA should have relatively little impact on jobs and the location of manufacturing." The CBO report states (p. xi): "A thorough review of the myriad changes brought about by NAFTA, and of their interactions, leads to the single resounding conclusion that the net effect on the U.S. economy would be positive and very small."

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Again, the net effects of NAFTA on the U.S. should be positive but small. The adjustment costs should also be small and manageable, and the Clinton Administration is committed to managing these adjustments.

that help workers move from low wage to high wage job opps - from jobs of today to those of the future

For Mexico, NAFTA is an important part, but only a part, of its new long-run development strategy designed to open the economy. Since 1986, Mexico joined GATT, unilaterally greatly lowered import protection levels (both tariffs and quotas), and started a major program of privatization. The shift in strategy has been successful, and Mexico is well on its way to recovering from the debt crisis, runaway inflation, and deep recession of the early 1980s.

insecurity

All studies indicate that a prosperous Mexico is good for the U.S. We gain from increased trade with Mexico, and it potentially represents an important market for U.S. goods.

Per exports up in Mexico from US already large

The notion that increased investment in Mexico will lead to jobs lost in the U.S. is flat wrong. Increased investment in Mexico will largely support increased Mexican growth, serving the Mexican market. It is a profound fallacy to argue, as Perot and Choate have

argued, that if Mexico generates more jobs, the U.S. must somehow lose jobs. The number of jobs is NOT fixed between the two countries. Increased trade benefits all participating countries. A growing Mexico benefits the U.S. Following the Perot/Choate line of reasoning, the U.S. should never have implemented the Marshall Plan, but instead should have prevented Europe from recovering after WW II because that would somehow take jobs away from the U.S. Ultimately, in a global world -- our prosperity depends on prosperity of others -

Macro studies (e.g., the CBO report) indicate that increased investment in Mexico will have a negligible effect on aggregate investment in the U.S. The Mexican capital market is very small relative to the U.S. capital market, and the U.S. is also open to world capital markets. Any increased flow of U.S. investment to Mexico simply generates a flow from the rest of the world to the U.S. The CBO report states (p. 25): "Even if the entire flow of additional Mexican investment — perhaps \$15 billion a year — were funded out of U.S. capital sources, it would amount to only 1 percent to 2 percent of U.S. annual saving, and less than 2 percent of the U.S. market for loanable funds."

Opponent to NAFTA

DRAFT

DRAFT 6:50pm

Statement of Ambassador Mickey Kantor
United States Trade Representative

NAFTA AND THE PEROT-CHOATE BOOK

September 2, 1993

With the supplemental agreements completed last month, the public and Congressional debate over NAFTA begins in earnest. It is important to cut through the mountain of misinformation and sheer lack of understanding of this complex issue to recognize what is at stake, ~~in NAFTA.~~

The foremost commitment of President Clinton, and this Administration, is to rebuild the strength of our economy, to create new and better jobs and opportunities for ~~United States~~ *Americans* workers and ~~for~~ their children who will be entering the work force.

We plan to do that through an integrated, economic strategy that begins by facing up to our problems at home: starting with the President's economic program, passed by the Congress last month, continuing with the drive to reform the health care system in America, and complemented by the effort to re-invent government, spearheaded by Vice President Gore. Trade agreements are no substitute for dealing with fundamental domestic problems that have weakened our country for too long.

But in the intense and competitive global economy, ~~trade policy is an indispensable part of our economic strategy. The President and I have repeatedly stated the objectives of our trade policy: to compete, not retreat behind our borders, and to insure that the markets of other countries are as open to our products and services, as the U.S. market is to the products and services of our trading partners. Our prosperity, and that of our children, depends on our ability to compete and win in the global marketplace. We will not accept an unbalanced trading relationship, and we will no longer subordinate our economic interests to foreign policy and defense concerns.~~ *There.*

The companies, farmers and workers of the United States are world-class competitors. We lead the world in everything from computers and telecommunications, to financial services and soybeans. We have regained our position as the world's leading exporter. But assuring that markets are open for our manufactured goods, our services, and ^{our} agricultural products is absolutely critical to building our economic success. *We seek reciprocity and fairness from our trading partners*

This Administration did not negotiate the NAFTA. Moreover, Bill Clinton as a presidential candidate was critical of the economic and trade policy of his predecessors. When we studied NAFTA during the presidential campaign, we approached it skeptically. There were powerful political reasons for opposing it.

But when we studied it, we found that NAFTA--- strengthened by supplemental agreements---would be in the economic interest of the United States. ~~It is not a favor that we were doing Mexico. It is in our economic interest. And it is a piece of the economic strategy that we were putting in place to build a high-wage, high-skill competitive economy.~~ NAFTA

granting

It is no secret that ^{that until recently} we have been negotiating the supplemental agreements, and ^{has} the White House had to focus on getting the economic package through Congress. The opponents of NAFTA have had the field pretty much to themselves. ~~That has changed--starting now. The Administration has the responsibility of convincing Congress and the country that NAFTA is in the national economic interest, and we intend to do so.~~ No longer.

^{welcomes the opportunity to} We will do so because we have the facts on our side, but also because we understand---as least as well as our opponents do---the fears of American working people ^{about} that their economic future, and their children's, ~~are not secure; that their standard of living has declined; and that their prospects are diminishing.~~ NAFTA is part of the solution, ^{rather than} part of the problem, ^{and we intend to show it.} ^{not}

debt
We intend to demonstrate that

^{stipulated} I have spent a significant amount of time over the last few days reading through and thinking about the Perot/Choate book. The book contains several major themes with which I fundamentally disagree: ^{opportunity here}

PEROT THINKS AMERICAN WORKERS CAN'T COMPETE

At the heart of Perot's book is the belief that U.S. workers can't compete with low wage countries like Mexico. President Clinton believes that American workers and businesses can compete anywhere that the rules are fair and markets are open.

^{competitiveness} Wages are one factor, but ^{wages} they are not alone ^{do not} determinative. We compete based on the productivity and the skills of our workers, the excellence of our products and services, and the strength of our transportation and communications system. That is the formula for success ^{that} Germany and Japan have followed, and that is the natural path for our country.

It was certainly hard to compete when Mexico's markets were completely closed to our products, as they were prior to 1986. But since Mexico began opening its markets, we have transformed a \$5 billion trade deficit with Mexico into a \$5.4 billion trade surplus. Mexico has already become our third leading export market, and the second leading market for our manufactured exports. We have succeeded even though Mexican trade barriers---tariff and non-tariff---remain far higher than ours. This is clear evidence of our ability to compete.

PEROT CHOOSES THE STATUS QUO OVER CHANGE

In opposing the agreement, Perot is opting for the

status quo which operates to the disadvantage of U.S. workers and companies. Despite Mexican progress in voluntarily opening markets, Mexican tariffs remain, on the average, 2 1/2 times higher than ours. Numerous Mexican non-tariff barriers, such as performance and trade balancing requirements, force U.S. companies to move to Mexico in order to sell there. Maquiladora industries distort U.S. business decisions to the disadvantage of U.S. workers. The lack of intellectual property protection hampers our motion picture and recording industries, as well as computer software and others. Meanwhile, Mexico enjoys virtually unlimited access to the U.S. market.

This unacceptable status quo is what the opponents would lock in. Our alternative is NAFTA, which brings down Mexican trade barriers, levels the playing field for U.S. companies and workers; it will no longer be necessary for companies to move to Mexico to sell there. The Big Three auto companies, which presently export only 1,000 cars to Mexico annually, predict an increase to 60,000 cars from the U.S. in the first year. Through the supplemental agreements, NAFTA gives us new ways to insure that Mexico will enforce the strong environmental protection and labor laws that it has on the books.

*J new
NAFTA*

PEROT CHOOSES PROTECTIONISM AND DEFEATISM OVER EXPANDED MARKETS AND EXPANDED GROWTH

Perot--by opposing NAFTA--chooses a defeatist path which will reduce U.S. economic growth and job creation. In the past few years, export-led growth has been the brightest spot in the U.S. economy--accounting for [] % of the total growth. Mexico, and Latin America beyond it, represent potential markets of 400 million people. By calling for the defeat of NAFTA, and in fact advocating higher tariff walls against products from Mexico, Perot risks the gains we have seen, as well as additional gains we expect from NAFTA and the completion of the Uruguay Round.

In seeking to raise the walls around our economy, Perot ignores the lessons of history. More than 60 years ago, when our economy was much more self-contained, the United States tried to insulate ourselves from competition through high tariffs. The Smoot-Hawley tariff contributed to the Great Depression. Today, with about one quarter of our economy involved in trade of goods and services, the course of action Perot advocates would be devastating to the U.S. and the world economy.

This is clearly the wrong path for America. The issue before us is simple: how do we create good jobs and competitive industries in a rapidly globalizing economy. We believe this can only be done by reaching outward, not looking inward, and by opening the markets of the future. As President Clinton has said, we must compete, not retreat behind our borders.

PEROT RELIES ON INACCURACIES AND MISLEADING INFORMATION

Beyond the major misconceptions in the Perot book, it

is riddled with mistakes, misconceptions, and oversights--we found over []. Among the most serious:

- o Perot states that 5.9 million jobs are "at risk" because of NAFTA. The methodology for reaching the 5.9 million figure is fundamentally flawed. The authors simply identify, from Census data, industries where wages account for more than 20 percent of the value of output. Under the Perot/Choate scenario, the "at risk" jobs include high wage, high skill jobs in our most competitive sectors, including aerospace, medical equipment, and sonar equipment--sectors where we are in no danger of losing jobs and in fact will increase employment with NAFTA. The authors also describe as "at risk" jobs which face no competition from Mexico such as bakers and wood-pulp millers.
- o The book quotes the previous Secretary of Labor stating that NAFTA will cost 150,000 U.S. jobs. The book ignores the fact that the same Secretary of Labor, citing the same study, went on to say the NAFTA will create 325,000 jobs--a net increase of 175,000.
- o Perot states that NAFTA will lower U.S. health and environmental standards. In fact, nothing in the NAFTA could even be construed as lowering any federal, state or local standard. NAFTA specifically insures the ability of each country, including its state and local governments, to maintain as stringent environmental and health standards as it considers appropriate. Moreover, the supplemental agreements include specific commitments from the three nations to harmonize standards upwards--not downwards.
- o Perot claims that the U.S. auto industry is on the "endangered" list. In fact, independent studies done by the Congressional budget office and the Office of Technology Assessment show that U.S. auto companies and workers will both gain under the NAFTA, thanks to the dismantling of the Mexican performance, trade balancing, and local content requirements, as well as the elimination of Mexico's current 20% tariff on auto imports. Indeed, the OTA study found that the total cost of delivering a car to the U.S. market is higher for a plant in Mexico than for one located in Michigan--despite the wage differential.
- o The book creates a thrilling-but fictional-scenario about the Administration sneaking an extension of fast track authority for NAFTA through the Congress this year. In fact, fast track authority for NAFTA was obtained after a spirited and extended public debate in 1991 and no extension was needed for NAFTA. This years fast track extension pertained only to the Uruguay Round of the GATT.
- o Perot once again criticizes but fails to provide specific alternatives. He only offers platitudes like "Do not violate National Sovereignty," and "Negotiate with Complete Integrity." The one specific recommendation he suggests is to impose a "social tariff." Yet increasing tariffs is

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exactly the opposite the aim of NAFTA's. The experience of Smoot-Hawley in the 1930s, and the depression which followed, teaches us that high tariffs and protectionism ^{are} ~~is~~ defeatist and harms economic growth.

- o The book claims that NAFTA jeopardizes the safety of American travelers by opening U.S. roads to trucks and drivers who do not meet U.S. minimum safety standards. In fact, no provision of NAFTA exempts Mexican and Canadian vehicles or drivers from U.S. environmental or safety standards. This means that Mexican trucks must comply with all U.S. regulations on length, weight, and disclosure for transport of hazardous materials. Each country retains the right to enforce standards that are more stringent than standards in effect in other countries.
- o The book states that the NAFTA deal on agriculture is a terrible deal. In fact, U.S. agriculture and the American farmer are big winners under the NAFTA. Conservative estimates show an expected increase of between \$2.0 to \$2.5 billion in U.S. agriculture annually by the end of the NAFTA transition period. Those exports alone will create over 50,000 new farm related jobs in the United States and boost farm incomes.
- o The book claims that NAFTA has the potential to increase immigration, not decrease it. In fact, nothing could be more important to reducing immigration to the U.S. from Mexico than increasing economic opportunity in Mexico. Even the Economic Policy Institute, which opposes NAFTA and is a major source for the Perot/Choate book, claims NAFTA will reduce immigration by more than 1.4 million person in the next six years. (3)

A more detailed compendium of misstatements is attached.

- o Almost every date used in the Perot book is wrong, including the release date. Some dates are off by months, including the date the full text of the NAFTA was made available to the public. Specifically, the book states the NAFTA was initialed on October 18, 1992. The real date was October 7, 1992. The book states the text was signed on December 18. The actual date was December 17. The book states the text was released on January 20, 1993. The actual date was September 18.

Extra

NAFTA creates a level playing field under which American products and services can be sold in Mexico as easily as Mexican products are sold in the United States. Presently, Mexican barriers for U.S. goods are two and one-half times as high as U.S. barriers to Mexican goods. Nevertheless, we have been and will continue to compete effectively with Mexico.

The NAFTA will unleash economic activity that will lead to 200,000 new, high-paying, export-related jobs in the United States. It unlocks access for U.S. products to Mexico--a growing market which thirsts for U.S. goods and services.

- o We believe that NAFTA will create thousands of high-skill, high-wage jobs, and independent studies support our view. Approximately 700,000 U.S. jobs are currently supported by merchandise exports to Mexico--over 400,000 of since 1986. Moreover, these jobs pay approximately 12% more than non-export related jobs. The Congressional Budget Office, the International Trade Commission, and the Brookings Institution have each performed thorough assessments of the vast economic literature on the NAFTA--each concludes that NAFTA will be a net job creator. U.S. workers and businesses will win with the NAFTA.

CORRECTING THE RECORD: A RESPONSE OF THE U.S. TRADE REPRESENTATIVE'S OFFICE TO THE PEROT/CHOATE NAFTA BOOK

DRAFT #5
9-1-93, 6:45 p.m.

Page	Book says	Reply
3	<p>"NAFTA gives Mexican investors a distinct competitive advantage in the U.S.-Mexican trucking industry in that it does not allow U.S.-owned trucks to cross into Mexico for three years, even though Mexican trucks already are allowed to move goods into U.S. border areas."</p>	<p>This book misses the fundamental point. Mexico's trucking market is now closed to the United States. NAFTA will open that market by phasing out Mexico's restrictions. This will eliminate rather than create the competitive advantage for Mexican trucks that the authors describe. NAFTA is the solution; the status quo is the problem.</p>
3	<p>"...NAFTA jeopardizes the safety of American travelers... by opening U.S. roads to trucks and drivers who do not meet U.S. minimum safety standards.</p> <p>"...Under NAFTA, Americans can expect to see overloaded Mexican trucks that will crush our highways."</p>	<p>These statements are dead wrong. No provision of the NAFTA exempts Mexican or Canadian vehicles or drivers from U.S. environmental or safety standards. The United States made it clear from the beginning of the NAFTA negotiations that Mexican and Canadian trucks will have to comply with all applicable safety and environmental standards when they are operating in our country and that these standards will be enforced with the same stringency applicable to U.S. operators. This is true for regulations regarding trucks (such as size and weight, brakes and out of service criteria), drivers (including language, and hours of service) and the environment (fuel and emissions standards). Mexican drivers are tested for licensing according to a standard fully comparable to that used in the United States. Mexican drivers and equipment must comply with U.S. regulations today, and they will have to comply subsequent to implementation of the NAFTA.</p>

Page	Book says	Reply
4, 5	"Despite the fact that Federal and state agencies are supposed to enforce U.S. trucking regulations, they are so understaffed that they will not be able to adequately enforce the increased traffic volumes associated with NAFTA."	We do want to improve enforcement of U.S. trucking regulation everywhere, but this is not a NAFTA problem. Trade with Mexico is less than 2 percent of total U.S. truck trade, and increased truck-access will not begin until December 1995. That is ample time to assure effective enforcement, as is our right under NAFTA.
6, 7	"Under NAFTA, smuggling drugs into the United States will become much easier."	Drug-smuggling is a problem now. Rejecting NAFTA won't help us solve that problem in any way. In fact, the opposite is true. Closer economic relations will help us work with Mexico to solve problems like illegal drugs. <u>Nothing</u> in NAFTA limits our ability to stop illegal drugs.
9	"Clearly, the Mexican negotiators out traded the U.S. negotiating team in the areas of land ownership, communications, shipping and banking. But it didn't stop there. The U.S. negotiators stuck to their strategy and gave away more U.S. jobs."	Virtually the entire U.S. services industry disagrees with the Perot book's conclusion about services. Why? Because under NAFTA we, for the first time, open Mexico's market for our larger, more efficient services companies from banking to insurance companies to telecommunications. NAFTA is the solution, not the problem. Mexico currently has many more restrictions in services than we do. NAFTA phases out most of those restrictions. Rejecting NAFTA will only enable Mexico to keep those restrictions.

trucking ↑

services ↑

Page	Book says	Reply
10	"(T)he U.S. team had agreed to let Canada continue to require U.S. automakers who sell in Canada to manufacture most of their vehicles there."	<p>NAFTA does not create this problem; NAFTA helps solve the problem. Since 1965, Canada has offered manufacturers the benefit of duty-free treatment if they made enough cars in Canada.</p> <p>Under NAFTA (as with the CFTA), all duties between the United States and Canada will be gone in four years, eliminating the need for U.S. companies to meet performance requirements in Canada in order receive duty-free treatment on products imported from the United States.</p>

Page	Book says	Reply
10-11	<p>When the Perot book states that "U.S. negotiators stuck to their strategy and gave away more U.S. jobs," its reference is to the auto sector. The book goes on to state that "NAFTA will allow U.S. automakers to replace american workers with Mexican workers. At the same time, European and Japanese manufacturers will gain easy access to the U.S. markets. Northern Mexico will replace Detroit as the car production center of North America."</p>	<p>This characterization totally misrepresents the agreement and its effect (as described in entries further on). It is inconsistent with a large body of economic analytical literature suggesting that U.S. Auto workers will benefit, not be harmed, by NAFTA. Another quotation from the Congressional Budget Office's study of NAFTA is both balanced and broadly representative of what sector analysis has shown concerning NAFTA and the U.S. auto sector. "in the short and medium term, U.S. firms and autoworkers should both benefit. The current Mexican trade surpluses in motor vehicles and motor vehicle parts are largely a result of export incentives and the required minimum trade balance imposed by the Mexican government, which NAFTA would phase out. The low U.S. tariff on automotive imports mean that eliminating these tariffs would not significantly increase the competitiveness of Mexican products in the U.S. market, whereas eliminating the much more substantial Mexican barriers would markedly improve the competitiveness of U.S. products in Mexico. Further, most Mexican assembly plants are not very efficient...</p> <p>"U.S. firms should benefit in the longer term. Although the longer-term outlook for U.S. autoworkers is less certain, they would more likely be helped than hurt. Mexico is a long-term growth market."</p>

Auto
helped
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Page	Book says	Reply
10, 31-33	<p>"The United States agreed to immediately drop its tariffs on automobiles imported from Mexico . . . while allowing Mexico to keep half its tariffs on vehicles produced in the United States. The remaining Mexican tariffs would be phased out over a ten-year period."</p> <p style="text-align: center;"><i>Autos US already open the previously open des.</i></p>	<p>This statement is misleading and completely fails to explain why NAFTA will increase U.S. auto production. They fail to state that the current U.S. tariff on automobiles is only 2.5 percent; In contrast, Mexico's tariff is 20 percent, or eight times larger than the U.S. duty. Under the NAFTA, this tariff is cut in half immediately to ten percent and then eliminated over the next nine years. The NAFTA also phases out Mexico's current laws that require U.S. auto companies to manufacture in Mexico in order to sell there. Without NAFTA, Mexico could maintain its high duties and non-tariff barriers.</p> <p>The fact is that the United States is already open to Mexican-produced automobiles, whereas a variety of factors leave the Mexican market closed to U.S. autos. NAFTA will open the Mexican market. That is why the Big Three auto producers estimate that NAFTA will increase U.S. autos exports from their current level of only 1,000 vehicles to over 60,000 vehicles when fully implemented.</p>

Page	Book says	Reply
10	The Perot book says that "[t]he NAFTA deal on agricultural trade is just as bad."	<p>U.S. agriculture and the American farmer are <i>big winners</i> under the NAFTA. <i>Conservative</i> estimates show an expected increase of \$2.0 billion to \$2.5 billion in U.S. agricultural exports annually by the end of the transition period because of the NAFTA. These exports alone will create over 50,000 new jobs in the United States and boost farm incomes.</p> <p>Importantly, NAFTA eliminates Mexico's arbitrary <i>import licensing</i> system which has been a major barrier to U.S. agricultural exports to Mexico. Tariffs will also be eliminated, giving the United States preferential access to the rapidly growing Mexican market.</p>
10	". . . only Mexicans can own land that is used for agricultural production in Mexico."	Right now, Mexico restricts foreign ownership of Mexican farmland (though not to the degree suggested by the book). NAFTA does not change those restrictions, just as our states can maintain their restrictions. But the book misses the point. Our major objective is to boost sales of American farm products to Mexico, not American ownership of Mexican farmers.

Page	Book says	Reply
10	". . . NAFTA allows Canadian wheat producers to keep the price and marketing advantages over U.S. producers that were negotiated in the 1988 Canadian Free Trade Agreement. "	<p>The book tells a very misleading story on wheat. We would like Canada to cease its wheat subsidies. NAFTA does not change that situation, nor would rejecting NAFTA help. The agreement does not provide for this. Accordingly, we maintain our right to subsidize our wheat exports to enable us to compete with subsidized Canadian sales.</p> <p>More significantly, what the NAFTA does do is open opportunities to U.S. wheat farmers to sell in Mexico. U.S. wheat exports to Mexico will not be subject to Mexico's arbitrary import licensing requirements, which are by far the greatest obstacle to trade in Mexico. Instead, the import license will be replaced by a tariff, which will be reduced to zero over a ten year period. As a result, U.S. wheat exports to Mexico are expected to rise about 20% because of the NAFTA.</p>

Page	Book says	Reply
10	<p>"The U.S. citrus industry will also suffer under NAFTA. The United States must immediately cut its tariffs on the import of frozen concentrated citrus from Mexico in half. In contrast, Mexico only has to phase out its 20 percent duty on imports of U.S. citrus <i>over an extended period of time.</i>"</p> <p style="text-align: center;"><i>Citrus and amongst of Mexico displacement source</i></p>	<p>U.S. negotiators recognized the sensitivity of the citrus sector, and the NAFTA contains unique transitional arrangements for frozen concentrated orange juice (FCOJ) to provide the maximum transition period for U.S. producers.</p> <p>Currently, Mexico's duty on frozen concentrated citrus is 20 percent ad valorem while the U.S. duty is 9.25 cents per liter (equal to about 30% on an ad valorem basis.) Both the U.S. and Mexican duties are reduced over a fifteen year period. A portion of Mexico's FCOJ exports are given immediate access at 50 percent of the existing tariff rate. However, the quantity which benefits from this duty reduction is capped for 13 years.</p> <p>In recent years (1990-91), the United States imported one-quarter of its FCOJ consumption, from Brazil. It is, therefore, likely that increased Mexican imports will displace sales of <u>Brazilian</u> orange juice, not sales of U.S. orange juice. Although U.S. citrus producers will face increased competition, this <i>fifteen year transition period</i> will help the citrus industry to adjust.</p>

Page	Book says	Reply
10	<p>"NAFTA also exempts Mexico from the U.S. Meat Import Act, which limits the amount of imported beef that can enter U.S. markets. At the same time, the agreement will give Mexico unrestricted access to U.S. and Canadian feed grains, which it needs to develop a large scale cattle-feeding and beef-processing industry. The result will be a massive shift of the U.S. beef industry from the United States to Mexico as investors rush to take advantage of cheap wages, low safety standards, and lax sanitation practices."</p> <p><i>agriculture] by women services</i></p>	<p>This statement completely misrepresents the benefits of NAFTA for U.S. beef producers. The American beef industry is one of the <u>biggest</u> winners of all under the NAFTA. Mexican tariffs of 15 percent on live cattle, 20 percent on fresh beef, and 25 percent on frozen beef will immediately be eliminated under the NAFTA. As a result, U.S. beef exports to Mexico are expected to double under the NAFTA. That is why U.S. cattlemen are among the strongest supporters of this Agreement.</p> <p>The scenario imagined by Mr. Perot is simply not realistic. Mexico imports millions of tons of grain and oilseeds for feed purposes, not to mention beef, pork, and poultry, from the U.S. Neither its policies nor its resources are appropriate for a rational, efficient large-scale, livestock feeding sector. While the U.S. Meat Import Act does permit us to restrict beef imports from Mexico and other supplying countries, Mexico has not been subject to any limitations for more than a decade because Mexico has posed no threat. NAFTA is no danger to U.S. beef producers.</p>
Page 10 Continued		<p>The fact is, the U.S. cattle and beef industry is too large, too competitive and too efficient to be threatened by growth in Mexico which is likely to be limited.</p>

Page	Book says	Reply
	<p>"The eventual elimination of Mexican tariffs on U.S. goods going to Mexico, which average only about ten percent, will mean little to most U.S. companies and workers. The reason is simple: Mexico's market is small —less than five percent of the size of the U.S. market— and Mexican consumers are poor."</p> <p><i>Certain jobs, etc will go → to real quest - do we get meaningful opps in return</i></p>	<p>The Perot books dismissal of Mexico as an important market shows a lack of understanding of international trade. While Mexico is currently a small economy, it is a <u>big</u> market for U.S. exports. It is our third largest --and fastest growing--major export market, after Canada and Japan. Mexican per capita imports from the U.S. total \$450 per year, more than that of Japan or Europe, even though Mexico's per capita income is far lower.</p> <p>Moreover, Mexico is growing, and in the future will represent an even bigger opportunity. Those who dismiss Mexico as a market represent the same mentality that 30 years ago said, "Japan isn't an important market." We should learn from history and secure an open market in Mexico.</p> <p>The book is also wrong in minimizing the importance of Mexico's current trade barriers. The fact is that Mexican tariffs are 2.5 times as high as U.S. tariffs, and Mexico also relies on non-tariff barriers to restrict U.S. access to their markets. NAFTA will level the playing field.</p>
14	<p>"Mexico reduced the wages of its workers to attract foreign-owned factories."</p> <p><i>Since 1989 Mex wages ↑</i></p>	<p>This statement is false and misleading. In the mid 1980s Mexico froze wages to fight the high levels of inflation and recession the country was experiencing. Moreover, Mexico cut wages of workers in an effort to balance the federal deficit and correct its trade imbalance. <u>Since 1989, Mexican wages have been rising.</u> Indeed, Mexico made many of the tough decisions to reduce its federal deficit as Ross Perot calls on the U.S. to do.</p>

Page	Book says	Reply
14	"President Salinas asked President Bush for a Free Trade Agreement to open investment in the same manner as the Maquiladora program."	<p>This statement is 180 degrees from the reality. A major benefit of the NAFTA for the United States is that it <u>reverses</u> the Maquiladora program.</p> <p>That program gave products assembled in Mexico preferential access to our market while <u>maintaining</u> all of Mexico's trade and investment barriers. in effect, it established an export platform in Mexico and encouraged U.S. companies to move there. NAFTA produces the exact opposite effect by opening entirely Mexico's market and eliminating the distortions created under the Maquiladora program.</p>

Page	Book says	Reply
14-16	<p>"The most bitter Congressional fight of 1991 was over an obscure piece little piece of legislation called the "fast track." It gave President George Bush the authority to negotiate the North American Free Trade Agreement in complete secrecy and without the participation of either Congress or the U.S. public...</p> <p>The term "fast track" refers to a process whereby Congress turns over to the President its authority to regulate foreign commerce..."</p>	<p>Their mischaracterizations are an attempt to discredit the major mechanism by which Congress and the President share the authority for concluding and implementing trade agreements. Fast Track has existed since 1974.</p> <p>Fast track procedures were used to implement the results of the Tokyo Round in 1979 when Jimmy Carter was President and the Free Trade Agreements with Israel in 1985 and Canada in 1988, with Republican president's in the White House. All of those agreements were approved by overwhelming margins in Congress, in part because the fast track preserves Congress' role during the negotiation, approval and implementation of trade agreements, through extensive notification and consultation requirements. Throughout the negotiating process, there is extensive consultation with members and committees of Congress. After the agreement is reached, Congress and the Administration work in close consultation to formulate</p>
Pages 14-16 Continued...		<p>implementing legislation, with all committees of jurisdiction involved. They are hardly "secretive" as they clearly do not exclude Congress or the public.</p> <p>The 1991 extension was debated for seven weeks and passed by both Houses of Congress in an open, democratic process. This authority merely gives the President the same powers all of his counterparts around the world have. Without it, the United States could not open markets around the world through multilateral and bilateral agreements.</p>

Page	Book says	Reply
14-16	<p>"Congress gave President Bush "fast track" authority for NAFTA in late May of 1991. But there was a catch---these extraordinary powers would expire at the end of 24 months. Contrary to expectations, the pact was not sent to Congress within that time period. Thus, the "fast track" powers expired on June 1, 1993...</p> <p>This was a problem to which there was only one answer---Congress had to pass another "fast track" bill. Rather than replay the bitter legislative fight of 1991, congressional allies of the Clinton Administration quietly slipped legislation into the one thousand page budget reconciliation package that was rushed to a House vote late in the evening on May 27, 1993. Not a word was said about "fast track" during abbreviated debate on the budget bill. Days late, House members learned that while they were passing the budget bill they were also reauthorizing "fast track" status for NAFTA."</p>	<p>This passage of the book is pure fiction. In fact, because of the 1991 legislation, fast track procedures were available for trade agreements entered into by the President prior to May 31, 1993. President Bush signed NAFTA on December 17, 1992; consequently, the fast track procedures were available for NAFTA; no new legislation was needed.</p> <p>President Clinton sought additional fast track authority only for his effort to complete the Uruguay Round of multilateral trade negotiations. This fast track legislation was not a part of the reconciliation debate; it did not sneak through in the dead of night; it was a separate piece of legislation dealing only with the fast track. It was debated by the House on June 22, and passed by an overwhelming vote of 295-126. It was debated by the Senate on June 30 and passed, as the authors note, by the vote of 76-16.</p> <p>After it passed both Houses separately, it was later included in the Omnibus Reconciliation bill.</p>

Page	Book says	Reply
14-16	<p>"Congress also agreed to make the agreement a top priority and vote on it within 90 days after receiving it from the President. Congress agreed, moreover, to limit any debate to 20 hours in the House and 20 hours in the Senate...[without] filibuster."</p> <p><i>Signed Dec 1992</i> <i>No need for fast track</i> <i>90 days from presentation of implement by updates</i></p>	<p>There is a requirement to vote within 90 <u>legislative</u> days after the implementing legislation is submitted to Congress. "Legislative days" refers to days that one or the other House of Congress is in session, and 90 legislative days is far longer than calendar days; it could be a period of many months.</p> <p>This is for longer than the period of floor debate provided for most major legislation. Moreover, while debate in the full House and Senate is limited, there is extensive debate and hearing in committees on the implementing bill, which painstakingly fashioned, over a period of months, by all the committees who have jurisdiction over parts of the legislation and the trade agreement. The overwhelming votes on past fast track trade agreements confirms the degree to which Congress and the President have used the implementation process to develop wide-ranging consensus.</p>

Page	Book says	Reply
17	<p>"Some of the bureaucrats on the U.S. negotiating team were experienced, but many were not. One participant reports that when the trade talks began not a single person in the U.S. Department of Commerce's Office of Mexico spoke Spanish. He says that during one inter-agency session, only two of the 14 members of the U.S. negotiating team knew that key sectors of the Mexican economy, such as petroleum, had once been American owned before they were nationalized by the Mexican government. He also reports that only five percent of the Mexican documents, such as copies of proposed regulations and administrative procedures, received by the U.S. negotiating team were ever translated for review."</p>	<p>Misleading. These statements are based on a paper that was repudiated shortly after it was produced by both the author and by the U.S. Department of Commerce, Chief Counsel for International Commerce. The retraction stated that the paper quoted in Perot's book "should not be relied on as a source of information on the NAFTA because it is replete with factual and legal errors." This memo was published in <u>Inside U.S. Trade</u> on February 26, 1993 (p. 16).</p> <p>At the time the NAFTA negotiations commenced, virtually every member of the Department of Commerce's Office of Mexico had some knowledge of Spanish, and several members were fluent speakers of Spanish whose language expertise was often relied upon by their respective negotiating groups. All necessary documents were translated for the benefit of negotiators. The author of the statement, however, was not one of the negotiators.</p>
18	<p>"Under the 1974 Trade Act, Congress directed the Office of the U.S. Trade Representative to seek advice and counsel from private advisory panels during any treaty negotiations, including NAFTA. For the most part, it never happened."</p>	<p>Totally untrue. The U.S. Trade Representative consulted with its 39 advisory committees and other members of the private sector to the fullest extent. During the NAFTA negotiating process, NAFTA negotiators held over 350 meetings with private sector advisory committees, and an additional 350 briefings for trade associations and private sector organizations throughout the country. Each of the advisory committees later wrote reports on the final agreement reflecting their extensive knowledge of the agreement.</p>

Page	Book says	Reply
18	<p>"The Bush White House....announced the completion of the agreement on August 12, 1992, but refused to give its own Labor Advisory Committee the text to review until September 8."</p>	<p>This statement is misleading. Throughout the entire negotiating process, the Labor Advisory Committee (LAC), as well as all other advisory committees, were allowed to view all portions of the NAFTA text as they were negotiated. Upon completion of the agreement, all advisory committees, including those representing labor, industry, agriculture, environmental groups and other private sector interests, were given all completed portions of the final version of the text. In fact, the first available sections of the text were given to the advisory committees on August 20, and by August 27, all sections of the text had been distributed. September 8, 1992 was the date the entire combined text was distributed to the committees in its final form.</p>
18	<p>"The 29 official U.S trade advisory committees, involving more than 825 industry representatives, were created by Congress to ensure that U.S. goals and bargaining positions in trade talks, such as the NAFTA, would be guided by advisers who represent the broad interests of the United States. This balanced review did not occur during the NAFTA negotiations."</p>	<p>The Office of the United States Trade Representative has 39 advisory committees, which are composed of over 1000 representatives of not only U.S. industry, but also U.S. agriculture, labor and environmental groups as well as a committee of state and local government officials. Furthermore, the Labor Advisory Committee (LAC), which consists of approximately 100 representatives of a broad range of organized labor throughout the United States, had more interaction with NAFTA negotiators than most other individual committees. During the NAFTA negotiating process, representatives of the LAC met with negotiators 42 times to discuss the details of the agreement.</p>

Page	Book says	Reply
18	<p>"The most important of these advisory committees was the Advisory Committee on Trade Policy and Negotiations(ACTPN). Its 45 members were appointed by the president. None were confirmed by Congress...Each member was prohibited from sharing information outside the group. The ACTPN meetings were exempt from the sunshine provisions of the Federal Advisory Committee Act, which require that the public's business be conducted in public."</p>	<p>Here, Mr. Perot incorrectly claims that Congress has no say in the structure of the advisory committees. However, as Mr. Perot, himself, states in the paragraph preceding this, it was Congress that drafted the legislation creating the advisory committee system in its current form. In accordance with this legislation, the President is required to select advisory committee members.</p> <p>Also, with regard to public disclosure, the statutes governing the ACTPN and other committees state that information discussed in meetings is to remain confidential to "the extent to which public disclosure of such information can reasonably be expected to prejudice the development of trade policy, priorities, or the United States negotiating objectives." Since the information discussed in advisory committee meetings during the NAFTA negotiations revolved around U.S. negotiating objectives, public disclosure of this information would have undermined the U.S. negotiating position.</p>
Page 18 Continued		<p>Mr. Perot, of all people, should understand how important it is not to give our trading partners access to sensitive information about our negotiating position. Congress certainly does, and has insisted that we maintain such confidentiality.</p>

Page	Book says	Reply
20	<p>"After the trade pact was completed, one of the U.S. negotiators explained to an audience of federal regulators that although changes in most domestic regulations normally require notice and public comment, secret trade negotiations (such as NAFTA) could alter these same regulations without the need for notice and public comment. The negotiator said, 'I have seen specific instances where USTR staff denied copies of U.S. negotiating positions which would require overturning Federal regulations from the staff of the agency issuing those regulations'."</p>	<p>False. This is another quote from the same paper later repudiated by its author. As noted in the Department of Commerce's retraction: "Contrary to the assertion in the [paper], the NAFTA is <u>not</u> a treaty that is self-executing and it will <u>not</u> automatically supersede any Federal laws or regulations. Rather, the NAFTA is an executive agreement that will supersede existing laws <u>only</u> to the extent provided by the Congress in implementing legislation."</p> <p>Congress has the final say as to whether to change our laws. NAFTA doesn't change that.</p> <p>Extensive consultations with every regulatory agency ensured that they were informed of NAFTA developments, and regulators from many agencies, including the Department of Agriculture, the Food and Drug Administration, the Environmental Protection Agency, the Federal Communications Commission, and the Department of Energy were integral members of the NAFTA negotiating team.</p>

Page	Book says	Reply
20-22	Perot makes a variety of claims regarding the treatment of the broom industry.	<p>The U.S. broom industry was accorded one of the longest transition periods of any industry under the NAFTA -- a longer adjustment period than given any Mexican manufacturing industry. Contrary to the allegations of Mr. Perot, it is <u>not</u> true that the U.S. industry was promised an even longer period; it is <u>not</u> true that U.S. negotiators sought to encourage the broom industry or any other to move production to Mexico; and it is <u>not true</u> that the Mexican industry was allowed to participate in the negotiations with the United States and Mexico.</p> <p>What is true is that broomcorn brooms have been one of the most highly protected products in the United States (although the United States, by Act of Congress, already gives duty free treatment to imports of Caribbean and Andean brooms.) In extensive consultations with Mr. Libman and other U.S. broom producers during the course of negotiations, the industry made clear its major goal was to maintain the U.S. tariff at half its current rate for as long as possible. The agreed-upon 12-year phase out accomplishes this. Mexico is permitted to ship 100,000 dozen brooms without duties (which Mr. Libman approved, on behalf of the U.S. broom industry). For all exports above this level, duties reduced are by 30 percent in year one, an additional 20 percent in year seven, with <u>no further</u> reductions until year 12. Thus, the duty will remain at or above 50 percent of its current level for 12 years; the 15 year phase-out provided to other sensitive industrial products, the tariff would have fallen below this mark in 7 years.</p>

Page	Book says	Reply
23	<p>"When the agreement was initialled on October 18, 1992 - two weeks before the U.S. Presidential election - the American public was handed a short, marked up version of the agreement."</p>	<p>All these statements are false. The NAFTA was initialled October 7, 1992, not October 18, 1992. The text of the tariff reduction schedules had previously been released on August 27, and the full text of the agreement had been provided to the public on September 18. In the period from August 12 on, the text was complete, but subject to technical corrections in a process of legal review. The texts were at all times available to members of Congress, and from September 18 were available to the public as the text went through technical verification.</p>
23	<p>"When the Agreement was officially signed on December 18, 1992, no additional information was provided to the American people. The complete text of NAFTA was finally released to the American people on the afternoon of January 20, 1993)."</p>	<p>The agreement was signed on December 17 (not 18), 1992, and the completed text was publicly available at that time. No new text was issued January 20, 1993, which was inauguration day in the United States.</p>
23	<p>"Only a handful of people...know what it actually in the agreement.."</p> <p><i>Wendell A Singer was writing.</i></p>	<p>While it is clear that the authors are not among those who know what is in the agreement, there have been a large number of economic analyses and other public material written on NAFTA.</p> <p>In fact, most credible independent economists conclude that NAFTA will be positive for the U.S. economy.</p>

Page	Book says	Reply
28-29	"NAFTA will accelerate the loss of manufacturing jobs in the United States."	<p data-bbox="943 128 1419 415">False. U.S. exports of manufactures to Mexico have grown rapidly since Mexico lowered its trade barriers after 1986, and are projected to grow more under NAFTA. This has actually added 500,000 new jobs to the American economy.</p> <p data-bbox="943 457 1419 1037">The Clinton Administration agrees that "manufacturing matters" and is concerned about the structural shift away from manufacturing during the last decade. However, NAFTA is not part of the problem. It is, instead, part of the solution. NAFTA will create the largest market in the world. By increasing our export opportunities, NAFTA will enable us to take advantage of U.S. economic strengths, which include high-wage, high-tech manufacturing, and to increase further the number of jobs associated with exports to Mexico.</p>
31	"Mexico provides automakers an easy escape hatch from the high cost of operating in the United States, and they are taking advantage of it."	<p data-bbox="943 1066 1409 1759">False. NAFTA immediately reduces and eliminates Mexican local content and local production requirements that have encouraged U.S. automobile and parts manufacturers to move production, and jobs, to Mexico. With NAFTA, the United States will be able to export automobiles and parts to Mexico, the fastest growing market for these products in North America. NAFTA reduces and eliminates Mexican trade balancing rules that require the export of automotive products produced in Mexico to the United States in order to import parts needed for assembly to serve the Mexican market.</p> <p data-bbox="943 1801 1419 1978">In other words, NAFTA phases out current Mexican measures which force investment in Mexico and exports from Mexico in order for a company to sell in Mexico.</p>