PRESIDENT'S COMPREHENSIVE REVIEW OF THE NAFTA

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

FIRST SESSION

SEPTEMBER 11, 1997

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PRESIDENT'S COMPREHENSIVE REVIEW OF THE NAFTA

THURSDAY, SEPTEMBER 11, 1997

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10 a.m., in room 1100, Longworth House Office Building, Hon. Philip Crane (Chairman of the Subcommittee) presiding.

[The advisories announcing the hearing follow:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE CONTACT: (202) 225–1721
July 3, 1997
No. TR–11

Crane Announces Hearing on the President's Comprehensive Review of the NAFTA

Congressman Philip M. Crane (R–IL), Chairman, Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on the President's comprehensive study of the operation and effects of the North American Free Trade Agreement (NAFTA). The hearing is the second in a series which began March 18, 1997, to consider major U.S. trade initiatives. The hearing will take place on Wednesday, July 16, 1997, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.

BACKGROUND:

The NAFTA entered into force on January 1, 1994. Section 512 of P.L. 103–182, the NAFTA Implementation Act, requires the President to provide to Congress, by no later than July 1, 1997, a comprehensive report on the operation and effects of the Agreement, including an assessment of: (1) the net effect of the Agreement on the economy of the United States, (2) the industries in the United States that have significantly increased exports to Mexico and Canada as result of the Agreement, or in which imports into the United States from Mexico and Canada have increased as a result of the Agreement, (3) the extent to which investment in new or existing production in the United States has been redirected to Mexico as a result of the Agreement, (4) the extent of any increased investment in new or existing production in the United States as a result of the Agreement, and (5) the extent to which the Agreement has contributed to an improvement in real wages and working conditions in Mexico, effective enforcement of labor and environmental laws in Mexico, and the reduction or abatement of pollution in the United States-Mexico border region.

In announcing the hearing, Chairman Crane stated: "In addition to creating the largest tariff-free zone comprising 370 million consumers and over $6.5 trillion of production, NAFTA set new standards for the protection of intellectual property rights, liberalization restrictions on foreign investment, and elimination of non-tariff trade barriers such as import licensing requirements. An accurate assessment of the effects of the Agreement on the U.S. economy and U.S. interests requires that, to the extent possible, the effects of NAFTA are distinguished from the effects of other economic events and trends which have occurred independently of this historic trade agreement."

FOCUS OF THE HEARING:

The purpose of the hearing is to receive testimony from the Administration and the public regarding the impact of the NAFTA on U.S. industry, agriculture, labor, and other parties. Witnesses should address whether the Agreement is serving the national interest of the United States, and whether it is operating as U.S. trade negotiators and Congress intended.

DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:

Requests to be heard at the hearing must be made by telephone to Traci Altman or Bradley Schreiber at (202) 225–1721 no later than the close of business, Wednesday, July 9, 1997. The telephone request should be followed by a formal written request to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The staff of the Subcommittee on Trade will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee on Trade staff at (202) 225–6649.

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are required to summarize briefly their written statements in no more than five minutes. THE FIVE-MINUTE RULE WILL BE STRICTLY ENFORCED. The full written statement of each witness will be included in the printed record, in accordance with House Rules.

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies of their prepared statement and an IBM compatible 3.5-inch diskette in ASCII DOS Text format, for review by Members prior to the hearing. Testimony should arrive at the Subcommittee on Trade office, room 1104 Longworth House Office Building, no later than Monday, July 14, 1997. Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) single-space legal-size copies of their statement, along with an IBM compatible 3.5-inch diskette in ASCII DOS Text format only, with their name, address, and hearing date noted on a label, by the close of business, Wednesday, July 30, 1997, to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Trade office, room 1104 Longworth House Office Building, at least one hour before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages including attachments. At the same time written statements are submitted to the Committee, witnesses are now requested to submit their statements on an IBM compatible 3.5-inch diskette in ASCII DOS format.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are available on the World Wide Web at 'HTTP://WWW.HOUSE.GOV/WAYS__MEANS/'.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–225–1904 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

*****NOTICE—HEARING POSTPONEMENT*****

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE CONTACT: (202) 225–6649
July 11, 1997
No. TR–11-Revised

Postponement of Subcommittee Hearing on the President's Comprehensive Review of the NAFTA Wednesday, July 16, 1997

Congressman Philip M. Crane (R–IL), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee hearing on the President's comprehensive study of the operation and effects of the North American Free Trade Agreement (NAFTA), previously scheduled for Wednesday, July 16, 1997, at 10:00 a.m., in the main Committee hearing room, 1100 Longworth House Office Building, has been postponed and will be rescheduled at a later date.

In making the announcement, Congressman Crane stated, "I am postponing at the request of the Administration. I believe it is vital for the Subcommittee to oversee the impact of NAFTA on our workers, businesses, and consumers. Therefore, I look forward to holding the hearing as soon as possible so that we may have an opportunity to thoughtfully analyze and review the report."

(See Subcommittee press release No. TR–11, dated July 3, 1997.)

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE CONTACT: (202) 225–1721
August 13, 1997
No. TR–14

Crane Announces Rescheduling of Hearing on the President's Comprehensive Review of the NAFTA

Congressman Philip M. Crane (R–IL), Chairman, Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee has rescheduled the hearing on the President's comprehensive study of the operation and effects of the North American Free Trade Agreement (NAFTA). The hearing was previously scheduled for July 16, 1997 (Subcommittee press release No. TR–11). The hearing will take place on Thursday, September 11, 1997, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.

In announcing the hearing, Chairman Crane stated: "I believe it is important for the Subcommittee to examine closely the effects of the NAFTA and to provide an opportunity to discuss the Administration's report. In addition to creating the largest tariff-free trade zone comprising 370 million consumers and over $6.5 trillion of production, NAFTA set new standards for protection of intellectual property rights, liberalization restrictions on foreign investment, and elimination of non-tariff trade barriers such as import licensing requirements. An accurate assessment of the effects of the Agreement on the U.S. economy and U.S. interests requires that, to the extent possible, the effects of the NAFTA are distinguished from the effects of other economic events and trends which have occurred independently of this historic trade agreement."

DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:

Requests to be heard at the hearing must be made by telephone to Traci Altman or Bradley Schreiber at (202) 225–1721 no later than close of business, Thursday, September 4, 1997. The telephone request should be followed by a formal written request to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The staff of the Subcommittee on Trade will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee on Trade staff at (202) 225–6649.

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are required to summarize briefly their written statements in no more than five minutes. THE FIVE-MINUTE RULE

WILL BE STRICTLY ENFORCED. The full written statement of each witness will be included in the printed record, in accordance with House Rules.

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies of their prepared statement and an IBM compatible 3.5-inch diskette in ASCII DOS Text or 5.1 WordPerfect format, for review by Members prior to the hearing. Testimony should arrive at the Subcommittee on Trade office, room 1104 Longworth House Office Building, no later than Tuesday, September 9, 1997. Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) single-space legal-size copies of their statement, along with an IBM compatible 3.5-inch diskette in ASCII DOS Text or 5.1 WordPerfect format only, with their name, address, and hearing date noted on a label, by the close of business, Thursday, September 25, 1997, to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Trade office, room 1104 Longworth House Office Building, at least one hour before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages including attachments. At the same time written statements are submitted to the Committee, witnesses are now requested to submit their statements on an IBM compatible 3.5-inch diskette in ASCII DOS Text or 5.1 WordPerfect format. Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

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The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman CRANE. The Subcommittee will come to order. Will all of our visitors please take seats as quickly as possible. I apologize for starting without our full representation on this panel, but we're going to be hard pressed today because of activity on the floor. As a result of that, I think we should proceed with who is here.

This is a meeting in the Ways and Means Subcommittee on Trade to consider the President's study on the operation and effects of the North American Free Trade Agreement. While I want to welcome Ambassador Lang to the Subcommittee, I do regret that Ambassador Barshefsky and Secretary Daley will not appear today. The President's report is a good one, and it's unfortunate that the White House and cabinet officials are not actively engaged in discussing the benefits of NAFTA so that the many unfair, unsubstantiated allegations surrounding this trade agreement can be laid to rest.

There is no doubt that NAFTA has taken a bum rap, receiving blame for job loss in the United States, as well as for a host of longstanding and serious problems we face along the border with Mexico. The purpose of today's hearing is to get the facts out on the table so that the many allegations about NAFTA can be evaluated in a fair light.

The President's NAFTA report is an important document. It confirms my view that NAFTA has had a decidedly positive impact on the U.S. economy by increasing the competitiveness of U.S. industry and contributing to the creation of high-wage jobs for U.S. workers. In the 3½ years since implementation, trade among Canada, Mexico, and the United States has grown about 50 percent, promoting intraindustry trade, specialization, and improved United States productivity and performance in the global economy. The annual rate of growth for United States exports to Mexico is 23 percent, compared to 5 percent for Japan and 4 percent for the European Union. Mexico is on the verge of overtaking Japan as the second largest destination for United States exports.

Today, we will hear from witnesses such as Larry Liebenow, chief executive officer of Quaker Fabric Corp. in southwestern Massachusetts, who will discuss the positive impact that NAFTA has on small- and medium-sized businesses, and on their capacity to create new well-paying jobs in the United States. Equally significant is the beneficial effect NAFTA has had on United States-Mexico relations and on our ability to ensure that Mexico continues along a path of economic reform and political stability. Weathering the peso crisis in the worst recession in Mexico since the thirties, NAFTA disciplines stopped Mexico from moving to restrict United States exports. With the 10-percent tariff advantage over non-NAFTA suppliers, the United States share of Mexico's import market jumped from 69.3 percent to 75.5 percent.

It's clear that under NAFTA, we face the next century better equipped to stem the flow of illegal drugs and immigration, and to address environmental problems along the 2,000-mile border the United States shares with Mexico.

Finally, our discussion today should not overlook the dynamic relationship we have with Canada, our largest trading partner with whom bilateral trade is now largely duty free by virtue of the historical United States-Canada Free Trade Agreement concluded in 1988. With these comments, I will yield now to our ranking Democrat on the Full Committee, Mr. Rangel, and then to other colleagues for their perspective on the success of NAFTA, and on the outlook for the future of trade in our hemisphere.

[The opening statement follows:]

Opening Statement of Chairman Philip Crane, A Representative in Congress from the State of Illinois

Good Morning, this is a meeting of the Ways and Means Subcommittee on Trade to consider the President's Study on the Operation and Effects of the North American Free Trade Agreement (NAFTA). While I want to welcome Ambassador Lang to the Subcommittee, I do regret that Ambassador Barshefsky and Secretary Daley will not appear today. The President's report is a good one, and it is unfortunate that the White House and Cabinet officials are not actively engaged in discussing the benefits of NAFTA, so that the many unfair, unsubstantiated allegations surrounding this trade agreement can be laid to rest.

There is no doubt that NAFTA has taken a bum rap, receiving blame for job loss in the U.S., as well as for a host of longstanding and serious problems we face along the border with Mexico. The purpose of today's hearing is to get the facts out on the table, so that the many allegations about NAFTA can be evaluated in a fair light.

The President's NAFTA report is an important document; it confirms my view that NAFTA has had a decidedly positive impact on the U.S. economy, by increasing the competitiveness of U.S. industry and contributing to the creation of high-wage jobs for U.S. workers. In the three and a half years since implementation, trade among Canada, Mexico and the United States has grown about 50%, promoting intra-industry trade, specialization and improved United States productivity and performance in the global economy. The annual rate of growth of U.S. exports to Mexico is 23%, compared to five percent for Japan and four percent for the European Union. Mexico is on the verge of overtaking Japan as the second largest destination for U.S. exports.

Today we will hear from witnesses such as Larry Liebanow, CEO of Quaker Fabric Corporation in Southwestern Massachusetts, who will discuss the positive impact that NAFTA has on small and medium-sized businesses and on their capacity to create new, well-paying jobs in the U.S.

Equally significant is the beneficial effect NAFTA has had on U.S.-Mexico relations and on our ability to ensure that Mexico continues along a path of economic reform and political stability. Weathering the peso crisis and the worst recession in Mexico since the 1930s, NAFTA disciplines stopped Mexico from moving to restrict U.S. exports. With a ten percent tariff advantage over non-NAFTA suppliers, the U.S. share of Mexico's import market jumped from 69.3% to 75.5%.

It is clear that under NAFTA we face the next century better equipped to stem the flow of illegal drugs and immigration, and to address environmental problems along the 2,000 mile border the U.S. shares with Mexico.

Finally, our discussion today should not overlook the dynamic relationship we have with Canada, our largest trading partner, with whom bilateral trade is now largely duty-free, by virtue of the historic U.S.-Canada Free Trade Agreement concluded in 1988.

With these comments, I will yield to our Ranking Member, Mr. Matsui, and then to other colleagues for their perspective on the success of NAFTA, and on the outlook for the future of trade in our hemisphere.

Chairman CRANE. Mr. Rangel.

Mr. RANGEL. Thank you, Mr. Chairman. I ask unanimous consent that the statement to be made by Congressman Matsui, the Ranking Member of the Trade Subcommittee, be entered into the record.

Chairman CRANE. Without objection so ordered.
[The opening statement of Mr. Matsui follows:]

OPENING STATEMENT OF CONGRESSMAN ROBERT MATSUI
SUBCOMMITTEE ON TRADE HEARING
ON ADMINISTRATION'S NAFTA REVIEW
September 11, 1997

I BELIEVE THIS HEARING SHOULD HELP TO PLACE IN PERSPECTIVE THE IMPACT OF THE NAFTA SO FAR ON THE U.S. ECONOMY OVERALL AS WELL AS ON INDIVIDUAL INDUSTRIES AND LABOR. AT THE TIME CONGRESS DEBATED PASSAGE OF THE NAFTA IMPLEMENTING LEGISLATION, PROPONENTS ARGUED IT WOULD CREATE A BOOM FOR THE U.S. ECONOMY AND EXPORTS AND A SUBSTANTIAL NUMBER OF U.S. JOBS. OPPONENTS PREDICTED A HUGE NEGATIVE IMPACT ON THE U.S. TRADE BALANCE AND ON JOBS AND WAGES. WHILE NAFTA PROPONENTS AND OPPONENTS CONTINUE TO POINT TO STUDIES THAT SUPPORT THEIR RESPECTIVE PREDICTIONS, REALITY HAS BORNE OUT NEITHER PREDICTION.

THE BASIC CONCLUSION IN THE PRESIDENT'S REPORT TO THE CONGRESS, REFLECTING SEVERAL STUDIES, IS THAT THE NAFTA HAS "CONTRIBUTED" TO AMERICA'S ECONOMIC EXPANSION AND HAD A "MODEST POSITIVE EFFECT" ON U.S. NET EXPORTS, INCOME, INVESTMENT, AND EXPORT-RELATED JOBS. SO WHILE THE POTENTIAL BENEFITS OF NAFTA MAY HAVE BEEN EXAGGERATED THREE YEARS AGO, THE DIRE PREDICTIONS OF MASSIVE JOB DISPLACEMENT AND DISRUPTIVE IMPORTS HAVE NOT MATERIALIZED. THE BOTTOM LINE IS THAT NAFTA ON BALANCE HAS BEEN POSITIVE FOR THE UNITED STATES ECONOMY.

THE PRESIDENT'S REPORT HIGHLIGHTS TWO MAIN POINTS ABOUT THE NAFTA WHICH CANNOT BE DISPUTED: FIRST, THE U.S. MARKET WAS ALREADY LARGELY OPEN BEFORE THE NAFTA WAS NEGOTIATED, WHEREAS MAJOR MEXICAN BARRIERS TO U.S. TRADE AND INVESTMENT WERE ELIMINATED BECAUSE OF NAFTA TO THE BENEFIT OF OUR EXPORTERS. SECOND, THE U.S. SHARE OF MEXICO'S IMPORT MARKET AND HIGHER-PAYING AMERICAN JOBS RELATED TO EXPORTS HAVE INCREASED UNDER NAFTA. NAFTA'S DISCIPLINES ENSURED THAT MEXICO'S MARKETS REMAINED OPEN AND ITS PESO DEVALUATION AND ECONOMIC RECESSION DID NOT HAVE A GREATER NEGATIVE IMPACT ON ACCESS TO THE MEXICAN MARKET AND THE U.S. TRADE BALANCE.

WHILE MORE OPEN MARKETS BENEFIT OUR ECONOMY OVERALL, WE MUST ALSO RECOGNIZE AND ADDRESS THE REALITY THAT MAJOR TRADE AGREEMENTS, PARTICULARLY WITH A DEVELOPING COUNTRY, HAVE A DIFFERENTIAL IMPACT ON INDIVIDUAL SECTORS OF OUR ECONOMY AND DO RESULT IN BOTH SECTORAL JOB LOSSES AS WELL AS SECTORAL GAINS. WE NEED TO FOCUS GREATER ATTENTION ON WAYS TO MAXIMIZE THE BENEFITS OF TRADE AGREEMENTS FOR ALL AMERICANS, AS WELL AS ADDRESS THE RELATIONSHIP BETWEEN TRADE AND LABOR AND ENVIRONMENTAL STANDARDS IN OUR GLOBALIZED ECONOMY.

I WELCOME THE BROAD INTEREST IN TODAY'S HEARING AS

Mr. RANGEL. I just want to join with your statement that we do need the facts to clarify just how many setbacks we've had in expanding trade through the North American Free Trade Agreement. I don't think anyone can challenge the fact that our President needs the authority to continue to expand the opportunity for trade for our great Nation. The question is, How much pain is involved in this progressive move, and what does the President intend to do about it?

I think to a large extent, those of us who are considering supporting a fast track have to find out as to how many people don't have access to these high-paying, high-tech jobs and whether or not there are provisions being made that working Americans and unemployed Americans not suffer all of the pains of this progressive trade boom that we're enjoying.

I see now that Mr. Matsui has arrived. Even though his statement has already been submitted in the record, at this time, I would like to yield to Mr. Matsui.

Mr. MATSUI. Well, thank you, Mr. Rangel. I would like to thank the Chairman and Mr. Rangel and all the witnesses. I think my statement that Mr. Rangel has placed in the record speaks for itself. I supported NAFTA. I think it has worked. I think it's something that has stabilized United States-Mexican relations. In addition to that, I believe we will see the benefits of NAFTA in the future as we have over the last few years.

I look forward to the testimony of my colleagues sitting here.

Thank you.

Chairman CRANE. Thank you both very much. With that, we'll begin this hearing with Congressman Dreier from California, Congressman Levin from Michigan, Congressman Kaptur from Ohio, Congressman Kolbe from Arizona, and Congresswoman Velazquez from the State of New York.

Let me ask in the interest of trying to move the hearing along, that you try in your oral presentation to confine it to approximately 5 minutes. Your printed statements will be made a part of the permanent record.

Mr. Dreier.

STATEMENT OF HON. DAVID DREIER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. DREIER. Thank you very much, Mr. Chairman. So my staff-prepared remarks will, as you said, appear completely in the record.

It's a great honor to once again be summoned before this very important Subcommittee to deal with an issue that has been important. I congratulate you and Mr. Rangel and Mr. Matsui and Mr. McNulty and other Members of the Subcommittee who have been very, very diligent in looking closely at this issue.

I think back on the history of this very controversial question. I go back to November 7, 1979, when Ronald Reagan announced his candidacy for President of the United States. In that announcement, he envisaged a North American accord which would include our neighbors. Then 9 years ago, Mr. Kolbe asked me to join with him as a cosponsor of his legislation which would call for the elimination of tariff barriers. It took a long time to bring this about. But clearly, we were on the cutting edge of what I think is a very positive indication of what is to come.

I want to say that as we look at the report that has come out, I am encouraged by so many aspects of it, because as I serve now in my ninth term, there are many many accomplishments of which I am very proud. If not at the top, right near the top of the list is passage of the North American Free Trade Agreement.

But as we look at where we are going now, it seems to me there are a number of questions that do need to be addressed because as we look at the very harsh criticism that has been leveled toward the North American Free Trade Agreement by a very, very outspoken group, and they protested yesterday in front of the White House during the event the President held, it seems to me we have got to look at what the gauge of success is.

One of the most important things that has really troubled me is the fact that when you look at the true measure of an administration's success on trade policy, it is the level of public support that exists for it. Unfortunately, we have not seen the kind of strong leadership that we really should have. Unfortunately, we have not had the kind of strong and passionate commitment for the North American Free Trade Agreement from the President using the bully pulpit as we have seen from those outspoken opponents. One of the reasons for that, Mr. Chairman, is the fact that we have seen focus on the issue of trade simply on that 18th century mercantilist view, that the only benefit from trade happens to be in job creating and exports. Half of the equation is so often ignored.

While the President gave a terrific speech yesterday in talking about his commitment toward free trade and fast track, unfortunately he failed to move beyond that half of the equation, simply talking about exports and jobs, not talking about the critical benefit to our economy of imports and international investment.

NAFTA is one aspect. As Charlene Barshevsky has pointed out time and time again, it's one aspect of our overall trade policy, but that plays an important role in promoting comparative advantage, which allows us to devote our resources to producing the things that we produce most efficiently. It increases competition, which clearly pushes American firms to operate most efficiently and effectively. It increases access to the lowest cost components which allows American firms to produce the lowest cost final products for the world. Of course, the greater flow of information and technology across borders allows us to learn from other countries, and lower prices helps keep inflation down and it raises the living standards of working families.

Now 4 years after the tremendous debate that we saw on the North American Free Trade Agreement, we are all still waiting for the three words that probably ring out with most Americans on that, the giant sucking sound of jobs that were going to rush to Mexico. Millions of jobs were going to move to Mexico. The report that this Subcommittee is considering and every other serious analysis of the North American Free Trade Agreement reveals that claim to be totally baseless.

NAFTA has promoted increased exports to Mexico. Even with the severe economic downturn in 1995, trade between the United States and Mexico reached $140 billion last year, which was a record year. NAFTA has resulted in an increase in imports from Mexico and Canada. That's not a failure of NAFTA. It's another example of the success of NAFTA. Again, in talking about the importance of imports to us.

During the debate, I remember Mr. Matsui and I raised this issue several times during debate. We talked about the idea of keeping so many of these jobs within our own hemisphere. To be very direct about it, I would like to see more and more imports coming to us from Canada and Mexico because clearly that benefits our hemisphere. I know it's at the expense of the Pacific rim, but frankly, keeping them here was one of the real reasons we strongly supported the NAFTA.

International trade is a cornerstone of Mr. Matsui's and my State of California, employing nearly a half a million of our workers in California, and exports from our State have increased $34 billion in just the past 3 years. It's been, as I say, a very critical job creator. Nearly 20 percent of all of California's manufactured exports are going to NAFTA partners. The State's exports to Mexico have increased by $2.7 billion to $9.1 billion under the NAFTA.

Now one of the things that is also very troubling is the fact that as we look at the issue of NAFTA, it is not simply a trade agreement. It's a very important foreign policy tool for us. We saw the local election in Mexico City take place. While we may not have been ecstatic at the outcome of the election with the election of Mr. Cardenas as mayor, the fact is it demonstrates that NAFTA is working. Why? Because the NAFTA locked in privatization, further democratization, decentralization. Those are the kinds of things I believe are a great signal to the rest of the world that can not be ignored.

The presumed unpopularity of NAFTA among the American people is not a reflection of economic reality. It's a reflection of, as I said, those nonstop protectionist attacks that are trying to use anti-Mexican racism to further their antifree trade agenda. I think the recent Business Week poll regarding NAFTA shows that not much has changed in the past few years. In April 1995, at the heart of the peso collapse and U.S.-sponsored recovery program, 48 percent supported the NAFTA and 39 percent opposed it. Today, after 3 more years of constant attacks by protectionists, 42 percent support NAFTA and 36 percent oppose it. In other words, it's a plus nine margin that's become a plus six margin, hardly massive unpopularity.

So it seems to me, Mr. Chairman, that as we look at this success record, it has been great, contrary to the attacks that so many people have leveled against it. I believe that our goal should be to expand rather than limit the scope of what has been a very, very positive vision.

Thank you very much.

[The prepared statement follows:]

Statement of Hon. David Dreier, a Representative in Congress from the State of California

Mr. Chairman, Members of the Committee, thank you for holding this important hearing regarding the successes of the North American Free Trade Agreement. It is always a privilege to appear before the August House Ways & Means Committee.

Mr. Chairman, the true measure of a President's success on trade policy is the level of public support for maintaining an open international economy. It is appropriate to ask if the President has adequately explained to the American people all of the benefits of NAFTA. Has he worked as hard to defend NAFTA and free trade as protectionists have worked to tear it down?

One major concern I have had with the Administration's trade policy in general, and with its policy on NAFTA in particular, has been the reliance on exports alone to justify free trade. In short, it is a mercantalist myth that trade only has value so far as it leads to exports. The President's speech on fast track yesterday, while laudable, failed again to expand the defense for free trade beyond exports and jobs.

Mr. Speaker, exports are important, but they are a small part of the story. The reality is that NAFTA, as one aspect of our nation's overall free trade policy, plays an important role in promoting——

1. Comparative advantage, which allows us to devote our resources to producing the things we produce most efficiently;

2. Increased competition, which clearly pushes American firms to operate most efficiently and effectively;

3. Access to the lowest-cost components, which allows American firms to produce the lowest-cost finished products in the world;

4. A greater flow of information and technology across borders, which lets us learn from other countries; and

5. Lower prices, which restrains inflation and raises the living standards of working families.

These are the primary benefits of NAFTA and free trade. These are the economic forces that have kept our nation's economy strong, while other advanced economies around the globe suffer high unemployment and slow growth.

Mr. Chairman, four years after the national NAFTA debate, the one clear image that remains in our minds is Ross Perot claiming that we would hear a "massive sucking sound" as millions of American jobs moved to Mexico. The Administration's NAFTA Report, as well as every other serious economic analysis of NAFTA, reveals that claim to be baseless.

It is clear that NAFTA has promoted increased exports to Mexico. Even with the severe economic downturn in Mexico in 1995, trade between the United States and Mexico reached $140 billion in 1996—a record year.

NAFTA has also resulted in an increase in imports from Mexico and Canada. That is not a failure of NAFTA—that is another example of its success. NAFTA was designed explicitly to give Mexican products an advantage in the fierce competition against similar products from other low-wage exporters, especially those in Asia. To be blunt, it benefits the United States more to create jobs and wealth across the border in Mexico rather than across the Pacific Ocean.

In my home state of California, international trade is a cornerstone of economic recovery, employing nearly a half million workers. Exports from the state have increased $34 billion in just the past three years. NAFTA has clearly contributed to job creation in California. Nearly 20 percent of all of California's manufactured exports go to NAFTA partners, and the state's exports to Mexico have increased by $2.7 billion, to a total of $9.1 billion a year.

Mr. Chairman, I also regret that the Administration Report on NAFTA failed to mention that NAFTA is more than a trade agreement, it is a cornerstone of our regional foreign policy. As we saw this summer in Mexico, democracy and free markets are moving forward together. NAFTA is a critical underpinning of our relationship, which is based on mutual respect, friendship and a commitment to prosperity and a healthier standard of living in the 21st Century.

Finally, Mr. Chairman, I believe that the presumed unpopularity of NAFTA among the American people is a reflection of the non-stop attack by some protectionists who promote an anti-Mexican bias to further their anti-trade agenda. With unemployment at a three decade low, NAFTA is clearly not, in reality, a massive job killer.

The recent BUSINESS WEEK poll regarding NAFTA shows that public views on the agreement have not changed much in the past 3 years. In April 1995, at the height of the peso collapse and U.S.-sponsored recovery program, 48 percent supported NAFTA, and 39 percent opposed it. Today, after three more years of constant attack by protectionists, 42 percent support NAFTA and 36 percent oppose it.

I look forward to the Committee bringing the facts before the American people to show that NAFTA and free trade are vital components of a pro-growth economic policy for the 21st Century.

Chairman CRANE. Thank you, Mr. Dreier. Before we yield to Mr. Levin, we know that you have Rules Committee responsibilities. So you excuse yourself when you have to leave.

Mr. DREIER. Thank you very much, Mr. Chairman.

Chairman CRANE. Sure thing.

Mr. Levin.

STATEMENT OF HON. SANDER M. LEVIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. LEVIN. Thank you, Mr. Chairman and my colleagues. Mr. Dreier has kind of given his notion of the broad context of the dispute and discussion over NAFTA. I would now like to give mine. It is quite different.

There is a central issue at the heart of the present turbulence in the United States over international trade. It was raised by some of us in the debate over NAFTA. It's bubbling more vigorously to the surface regarding fast track.

This is the issue: Economic globalization for the United States is increasingly moving from competition with Europe, Japan, and other industrialized nations to trade and competition with developing nations, from Mexico and Brazil to China and India. These nations have vastly lower wage and salary levels, usually embedded with tight central state control over all aspects of their labor markets and state subsidization of the instruments of production.

Trade with these developing countries has captured an increasing share of total imports into the United States rising from 36 percent in 1987 to almost 45 percent last year. It is increasingly a major factor in the United States trade deficit with Mexico as well as China.

This new reality has been occurring at the same time as continued income stagnation and job insecurity in the United States. There is increasing concern here about the connection between these two phenomena, a stagnating American standard of living for many, and increasing trade and competition from low wage, highly centralized developing economies. I just want to urge that we take this issue seriously.

Recent economic literature indicates that the negative effects of trade on wages has been creeping up over time, today accounting for up to 20 percent of the rise in wage differential between skilled and unskilled labor in America.

In the polarized world of discussions about trade, it isn't easy to discuss this issue. We heard some of the same cries about protectionism when we raised issues of market access in trade agreements, especially with Japan. It turned out that these issues of market access with Japan were real ones, and more and more have become accepted.

One cannot dismiss this issue of the basic ground rules of competition with developing nations, including labor markets and environment, as for example unrelated to trade. This is no less a trade issue than safeguarding U.S. intellectual property or negotiating rules regarding access to capital investments or joint ventures. We can't dismiss this as a social issue. It's an economic issue. Nor to dismiss this as an attempt, for example, to set wages in Mexico and other countries. In fact, in important respects, it is an attempt to do just the opposite—stop governments like Mexico from artificially holding down wages and other conditions of employment so that their citizens are free to shape their own economic future. We're not trying to apply our statutes to other countries, but rather to establish certain minimum conditions for free labor markets, to ensure that increasing productivity is reflected in growing wages and in an expanding middle class that purchases our goods and strengthens democracy and global peace. And for these conditions to be effective, there must be more enforcement mechanisms than those in NAFTA.

It is no answer, Mr. Chairman and Members, to say that the United States is trying to impose its system and its values on other nations. That is what we are in essence trying to do with the IMF in terms of a free market system. If we support those efforts, why not other vital features of our system like free labor markets, where wages can rise with productivity, with the right to organize and bargain collectively, and the absence of state control over wages or the instruments of production.

It is not an answer to say that developing nations are simply trying to use their comparative advantage. As I say in my testimony, in a sense, they are trying to abuse, over a long period of time, their comparative advantage.

It's not an answer, Mr. Chairman and Members, to say let's leave these issues of a free labor market and environmental issues in the case of labor standards to bodies like the ILO and the WTO. They have been ineffective in addressing these issues, even though the ILO ironically was fostered in part because some countries in Europe feared that others would use labor costs as an advantage in their competition.

It's not an answer to respond only with domestic programs for training and retraining our work force. Nor is it an answer to say that the only goods these countries send are low value-added items like footwear and clothing. This is certainly not the case with autos, televisions, and electronics from Mexico.

I want to close with this statement because it applied to NAFTA and it applies to the issue of fast track as we face it in the next days. We have just two real alternatives. Pursue these issues in negotiations where they matter, or assume they don't matter very much to our Nation and relegate them to the shadows. As I have been urging on the administration and others, there is no language that can finesse the issue. There are no easy answers on the issue. But the American people deserve a coherent policy on issues of labor standards, of free labor markets, of environmental issues.

This is an issue and these are issues that directly affect people's lives, whether workers or small- and medium-sized businesses which can not pick up and leave for somewhere far away. We did not face this issue adequately when it came to NAFTA. I have supported other international trade agreements to expand international trade. But I will oppose, as I did with NAFTA, any fast track proposal that does not make clear and assure that this Nation will address these issues in any new negotiations.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of Hon. Sander M. Levin, a Representative in Congress from the State of Michigan

Thank you, Mr. Chairman, for giving me this opportunity to testify on a very timely issue.

There is a central issue at the heart of the present turbulence in the U.S. over international trade. It was raised by some of us in the debate over NAFTA; it is bubbling more vigorously to the surface regarding fast track.

The Basic Issue

The issue is this: Economic globalization for the U.S. is increasingly moving from competition with Europe, Japan and other industrialized nations to trade and competition with developing nations—from Mexico and Brazil to China and India. These nations have vastly lower wage and salary levels usually embedded with tight central, state control over all aspects of their labor markets and State subsidization of the instruments of production.

Trade with these developing countries has captured an increasing share of total imports into the U.S., rising from 36 percent in 1987 to almost 45 percent last year. It is increasingly a major factor in the U.S. trade deficit, with Mexico as well as China.

This new reality has been occurring at the same time as continued income stagnation and job insecurity in America. There is increasing concern among the American public and in this Congress about the connection now and in the future between these two phenomena—a stagnating American standard of living and increasing trade with and competition from low-wage, highly centralized developing economies.

One aspect of this, as noted by former presidential chief economic adviser Laura D'Andrea Tyson, is reflected in recent economic literature, which finds that the negative effects of trade on wages has been creeping up over time, today accounting for up to 20 percent of the rise in wage differential between skilled and unskilled labor in America.

As one who has favored and worked for expanded international trade, I have been urging the Administration for several months to address this new reality as it shaped any request for renewed fast track authority. I oppose any fast track proposal that does not make clear and assure that it will be addressed in any new negotiations.

The Resistance to Change

We see some of the same objections and hear some of the same rhetoric about "protectionism" as were raised in the early 1980's when some of us proposed including market access issues in trade agreements, especially with Japan. Before then, trade was primarily among industrialized nations with economies somewhat like our own, and the main issue was tariffs. But Japan and other industrialized nations presented a new set of issues in the '80's. Even when tariffs were low in those countries, we couldn't get into their markets because of non-tariff barriers. A decade later, it is agreed, even among many economists and among the solid phalanx in the media that opposed any action, that market access issues should be an intrinsic part of our trade agenda.

Now, the nature of trade is changing again, and it's time to overcome closed minds and open them to another change in trade policy.

The Issue Can't Be Dismissed

It is not an answer to dismiss this as unrelated to trade. It is no less a trade issue than safeguarding U.S. intellectual property or negotiating rules regarding access to capital investments or joint ventures.

It is not an answer to dismiss this as a "social issue." Setting the basic ground rules for competition is a core economic issue.

It is not an answer to dismiss this as an attempt to "set wages in other countries." In fact, in important respects it is an attempt to do just the opposite: Stop governments from artificially holding down wages and other conditions of employment, so that their citizens are free to shape their own economic future. We're not trying to apply our statutes to other countries, but rather to establish certain *minimum* conditions for free labor markets to ensure that increasing productivity is reflected in growing wages and an expanding middle class that purchases our goods and strengthens democracy and global peace. And for these conditions to be effective, there must be enforcement mechanisms far more meaningful than those in NAFTA.

It is not an answer to say that the U.S. is trying to "impose its system and its values on other nations." After all, the purpose of institutions like the International Monetary Fund (IMF) and the World Bank, which the U.S. helped to create, is to "impose" important features of our free market system, including capital and investment structures, on developing nations. If we support those efforts, why not other vital features of our system like free labor markets, where wages can rise with productivity, with the right to organize and bargain collectively, and the absence of State control over wages or the instruments of production?

It is not an answer to say that a developing nation's low-wage, state-control structure is simply their use of a "comparative advantage." What is at stake is their abusing that comparative advantage to perpetuate an unlevel playing field. We have heard a similar argument that developing nations should be able to operate for a long stretch of time under different environmental standards since that is one of the comparative advantages they need to catch up with industrialized nations. But the U.S. has rejected that argument because a developing nation's environmental practices can affect our health and welfare, and the same logic applies to economic practices that affect our economic health. A 1996 OECD study concluded that the observance of minimum labor standards by developing nations is good economics. If a country wants to get rich, it can't afford not to implement these standards. They create a bigger pie by spreading the gains and incentives of trade.

It is not an answer to leave these issues to international bodies like the I.L.O. and the W.T.O. At its Singapore meeting, the W.T.O. bounced issues relating to labor market standards to the I.L.O.; the latter, which interestingly enough was created in part by some countries which feared lower labor costs in other industrialized nations would hurt their economies, has a record of inaction on these matters.

It is not an answer to respond only with domestic programs for training and retraining our workforce. These are necessary but insufficient.

It is not an answer to say that the only goods these countries send us are low-value-added items like footwear and clothing. This is certainly not the case with autos, televisions and electronics from Mexico. And, as I saw firsthand during a recent trip to Shanghai and Beijing, it is not the case with China either. Today, 75 percent of the auto parts used by Big Three plants there are made in the U.S. But as Beijing enforces its domestic content restrictions and squeezes technology transfers out of foreign investors, those auto parts increasingly will be produced in and will be exportable from China.

There are just two real alternatives: (1) pursue these issues in negotiations where they matter or (2) assume they don't matter very much to our nation and relegate them to the shadows. As I have been urging on the Administration, there is no language that can finesse the issue. There are no easy answers on this issue, but the American people deserve a coherent policy. This is an issue that directly affects people's lives, whether workers or small and medium sized businesses which cannot pick up and leave for somewhere far away. In my opinion, we will have to face up to it sooner or later—and the best time is now, when we have general economic prosperity.

CONCLUSION

The changing nature of trade demands a new trade policy that advances the United States' core economic self-interest in maintaining our standard of living. This basic issue cannot be finessed or ducked. Addressing it also has collateral benefits for the United States, because nations that spread the wealth from trade will more rapidly develop middle classes that can buy our goods and strengthen their own democracies, which in turn contributes to global peace and stability. Therefore, we should address this issue this fall in the context of fast track trade negotiating authority legislation

Mr. SHAW [presiding]. The time of the gentleman has expired. The Chair now recognizes the gentlelady from Ohio, Marcy Kaptur. We have all of your full statements, which will be made a part of the record. You may proceed as you see fit.

STATEMENT OF HON. MARCY KAPTUR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Ms. KAPTUR. Thank you, Mr. Shaw and Mr. Matsui and Members of the Subcommittee. It is a pleasure to appear before you today. I will summarize in view of the time, and want to thank you very much for the opportunity to hear Members who do not serve on your very prestigious Subcommittee.

Since NAFTA's enactment 3½ years ago, our continent has now had the opportunity to witness the early results of integrating the economies of the United States, Mexico, and Canada. In my own judgment, the agreement certainly has fallen far short of its promises. Job losses in our country alone now exceed over 300,000, with over half of those individuals qualified for some form of trade adjustment assistance. Menacing and growing trade deficit over the past 4 years now cumulatively totals over $100 billion with our trading competitors on this continent. It has been rising each year in nominal and real terms and has quadrupled since 1994.

Now let me say that $100 billion just with those two countries constitutes about one-third of our rising trade deficit with the world. Economists now agree that the cumulative trade deficit with the world costs us probably 1 percent, 1 point, on our GDP, 1 point. So, if we were to have balanced trade accounts for the country as a whole, our GDP would rise by an additional point, which would be a tremendous kick here at home for rising incomes and rising wealth within the United States. If this deficit constitutes about one-third of the overall deficit with the world, it is a significant and rising problem with our inability to generate significant income increases here at home that can be spread across the broad middle and lower classes of our country.

The agreement has resulted in new threats to our standard of living in the form of unsafe trucks, which we have heard plenty of, especially people living at the border. The increased flow of illegal narcotics across that border at so many points that are inspected and not inspected. We can't control the border. Transporter pollution, which is rising. NADBank hasn't even made any significant environmental investments down there. The problem of contaminated food and our inability to protect our own consumers are unaddressed by the current NAFTA.

In fact, in terms of the wheat production of this country, we have had carnal bunt for the first time in our generation coming north of the border. We have had the U.S. Department of Agriculture to put special alerts in Texas, California, and Arizona. We have new line items in our agriculture budget now dealing with carnal bunt problem, which is all over northern Mexico. We have not been able to protect our own country in the southwest. It has gone through the transportation chain of this country, and it is a significant and growing problem for us in the agricultural sector. Bovine-related tuberculosis is on the rise, and tainted strawberries and raspberries have now made it to the front pages of the paper, those imported from points south.

I just mention those because they are all attendant to our inability to deal with the results of trade. We all want open and free trade, if only it were that. But our inability to adjust to these volumes has caused significant problems in various sectors in this economy.

I wanted to make a note about the collapse of the Mexican peso and the bail-out that occurred, which has now been paid back. But I want to say only paid back, because Mexico borrowed on international markets. Those bills will come due in the future. If you look at the internal and external accounts of Mexico, we've had a cyclical pattern of peso collapses and another one will come due. It will be bigger. So please do not take the administration's word that the bills are all paid as in fact a predictor of what will happen in the future.

On the job front, the great myth is that NAFTA merely trades low-wage jobs in the United States for high-tech opportunity. The fact is, we are losing high value-added jobs throughout our economy. Our wages are being pushed down by the continuing low-wage competition, not just with Mexico, but with other nations around the world. Mr. Levin eloquently talked about this problem.

We also know that since NAFTA's passage, the wages in Mexico have fallen another 25 percent. At the time of NAFTA's passage, they were 30 percent below where they had been in 1980. So this is not obviously a simple question of merely trade in goods that we're talking about.

I wanted to make this statement. I know that time is very short. But if you look at what has been happening to the relationship between imports and exports, particularly with Mexico since this agreement was signed, the change in the character of our exports there has changed dramatically. Two-thirds of them are now U-turn goods or industrial tourists, that go down there and then are shipped back here, two-thirds, which means you are not getting the development of real consumer market inside Mexico. But rather, what you are doing is you are ratcheting down the standard of living in this country. It is a real and serious issue that we are dealing with here with long-term impacts on our ability to develop a consumer market down there. The maquiladora plants were supposed to disappear under NAFTA. They have now increased to well over 2,000 companies, employing over 800,000 workers projected by the year 2000, to employ over 1 million workers. So these trends are not going to change unless we as a country assume leadership to try to get more balance in these relationships.

Mr. Chairman, I know that my time is up. I only wish to say that I am going to submit for the record, and I hope someone from the Clinton administration is sitting in the audience, because I have the story of just one of thousands of workers that have been displaced in this country. When they wrote the President of the United States that they were a victim of NAFTA, he sent them a letter saying NAFTA is working. They wrote back, they e-mailed. The kind of insensitive response this administration is responsible for is an embarrassment to me as a citizen in a democratic republic. It seems to me that the people who are paying the price in our country deserve better treatment by our own government.

I have recommendations at the end of my testimony, including changes in the way we deal with these dislocated workers.

I thank you for your attention.

[The prepared statement follows:]

Statement of Hon. Marcy Kaptur, a Representative in Congress from the State of Ohio

OVERVIEW

Thank you for the opportunity to be here today. Since NAFTA's enactment three and a half years ago, our continent has witnessed the early results of integrating the economies of the United States and Mexico. Economist Sidney Weintraub has observed, one of the major accomplishments of NAFTA has been to bring the people of our two countries closer together as a result of numerous commercial transactions. However, in my judgment, the nature of relationships being forged is very lopsided. Today, since the well-funded beneficiaries of NAFTA will present their case, I want to convey to you the hopes and concerns and the real impact felt by thousands of Americans who have not benefited from the North American Free Trade Agreement.

In the 44 months since NAFTA took effect, we have seen the agreement fall far short of the promises made by its proponents back in 1993 when the historic debate occurred in the House.

Already, job losses in the U.S. exceed 300,000 workers and sweatshop maquiladora zones in northern Mexico—which was supposed to have disappeared as a result of NAFTA—has grown even further, employing over 800,000 low-wage workers in nearly 3,000 firms. Northern Mexico has become the massive export platform to our economy that we feared *** A menacing and growing trade deficit over the past four years totaling more than $100 billion of lost economic power inside our marketplace has been accumulating with our NAFTA partners. New threats to our standard of living in the form of unsafe trucks, illegal drugs, transborder pollution, and contaminated food are real and unaddressed by the current NAFTA. And the fast track proposal will do nothing to alleviate these severe shortcomings.

We now have 44 months worth of evidence about the effects of NAFTA-style trade agreements—a menacing and growing trade deficit, problems along the border, questions about truck safety and food safety and drugs, a collapse of the Mexican peso and an unprecedented bailout by the U.S. taxpayers that was paid back only because Mexico borrowed more at higher rates on international money markets. These bills again will come due in the future, as currency crises in Mexico area recurring phenomenon, and our taxpayers will again be thrown into a siilar position of being a bailout insurance company for what the private sector should insure on its own.

The great myth is that NAFTA is merely trading low-wage jobs from the United States to Mexico for high-tech replacement job opportunities here at home. The fact is our nation is losing high value-added jobs throughout our economy while U.S. wages are being pushed down by the growing low-wage competition with Mexico.

Real hourly wages in Mexico, which at the time of NAFTA's passage were trailing their 1980 levels by almost 30 percent, have fallen another 25 percent since the peso collapse.

THE CHARACTER OF EXPORTS

This past April, the U.S. Commerce Department, as usual ignoring the actual trade deficit and looking at only one side of the ledger, made much of the fact that Mexico had become the second-largest importer of U.S. goods. What this lopsided view of U.S. exports obscures is the dramatic change in the character of U.S. exports to Mexico over the last three and a half years.

The vast majority of U.S. export growth has occurred in what Professor Harley Shaiken calls "revolving door" exports—goods shipped to Mexico for assembly in maquiladoras or similar plants and then sold back in the U.S. markets. These goods in fact are "industrial tourists."

These U-turn exports now account for five of every eight dollars worth of U.S. exports to Mexico, up from only three of every eight dollars in 1993. Thus we witness not a real consumer market in Mexico but the triangulation of U.S. production and the relocation of other foreign production to Mexico to back-door goods into the U.S. by avoiding tariffs normally paid at our borders.

We have seen a surge in exports not because Mexico has developed a viable middle class, but rather because the maquiladora factories along the border have churned out billions of dollars in products aimed at our consumer market.

There is no question that whatever the character of U.S. exports to Mexico, they have been completely overwhelmed by imports from Mexico during each year of NAFTA's existence.

In the automobile industry, which represents two thirds of the expanding trade deficit in high value-added products, we have witnessed a growing stampede of Mexican-made vehicle and part imports to the U.S. [Chart]

The continued combination of high productivity in Mexico at low wages contributed to the record $17.5 billion U.S. trade deficit with Mexico last year. In the automobile industry, the U.S. deficit with Mexico is in the neighborhood of $15 billion a year. The vehicle and parts deficit with Mexico now is almost half as large as our deficit in that sector with Japan. While the Administration is alarmed by the deterioration of our trade position with the Japanese, it is strangely silent about the same crisis in our trade relations with Mexico.

In 1996, Mexico was the third largest exporter of motor vehicles to the U.S., exporting a total of more than three quarters of a million cars and trucks. This number is more than double Mexico's exports of 340,000 vehicles before NAFTA. The

U.S. exported only 91,000 vehicles to Mexico last year. That's a deficit of more than three to one.

Workers in electronics and other high value-added industries continue to see good-paying jobs flow south—jobs on which families could buy a house and car and send their kids to college. There is a flood of imports in the auto and electronics sectors.

The net result, as Kenneth Lewis recently pointed out in the New York Times, is that from 1979 to 1994, twice as many high-paying jobs in the United States economy were lost to imports as were gained from exports.

If you look at the companies who have set up shop in the border area, you will find many of the high-tech leaders—indeed the very companies whose corporate bosses launched the fast track campaign yesterday at the White House.

I don't know about your district, but in northwest Ohio I can name dozens of communities who would give anything if they could land a new General Electric or Alcoa plant, or a General Motors plant or Allied Systems plant. While these firms expand in Mexico, they downsize in the U.S.

Structural damage has hit entire sectors of our economy, in apparel, electronics, television, automobiles, and automotive parts. And the people who have paid the heaviest price often have been women and minorities, and people living in rural areas across our nation where replacement jobs are hard to find, and wage levels are being ratcheted down.

ONE WOMAN'S STORY

Day by day a steady destruction of thousands of jobs in the apparel industry occurs, in Missouri and the Carolinas and Tennessee and throughout the South.

The only way thousands of working Americans who have lost their jobs due to unfair rules of global engagement and low-wage competition can match the lobbying power of the multinational corporations is to speak out—locally and nationally. Their hope is that some group of conscientious officeholders here in our nation's capital will recognize their plight and act in their interests.

Wanda Napier is one such person. She represents tens of thousands of our citizens whose livelihoods have been destroyed by NAFTA. She is important, and her life as valuable as the chief executive officer of General Motors, or Alcoa, or GE, or the host of other corporations that are spending three million dollars to tell their side of this one-sided story.

Wanda Napier worked for 14 years at an apparel plant in Seymour, Missouri, where the workers were making an average of $7.84 an hour. Then their employer, Lee Apparel Company, a subsidiary of VF Corporation, announced it was pulling out and heading to Mexico, destroying her job, 350 in total at that Missouri plant, and more than 2,000 jobs around our nation.

What do you say to the thousands of Wanda Napiers out there? Working Americans who played by the rules, worked hard to stay off welfare—then got the rug pulled out from under them?

Do you say, "Too bad, Wanda, that's the way it goes in the global economy"?

Do you point to a sky-high stock market and say surely some of its benefits have overflowed to her?

Or do you simply tell her that in the new world economy she and other Americans like her are simply expendable?

Let me tell you, Mr. Chairman, Wanda Napier is not satisfied with being just another statistic of a failed trade policy.

Late last year, after Lee Apparel Company dropped the bomb on 350 employees—many of them women—Wanda dried her tears, then sat down to write to the President, to her U.S. Senators, to her Congressman, her state legislators—pleading to anybody who would listen, anybody who would care.

On January 14, from the White House, she got back a reply, a form letter that basically told her NAFTA was working. "NAFTA represents a great opportunity to create new, high-wage jobs here in America"

Wanda was flabbergasted. And she even went high tech. She e-mailed the President. She e-mailed Trent Lott, too. From the White House, she got back a message noting that the volume precludes personal responses.

She went back to the old-fashioned route and wrote the President another letter about the dire situation facing the workers in Seymour, Missouri. She wrote, "I would like to know if you, personally, even care that I and others like me have lost their jobs because of NAFTA."

On May 5, from the White House, she got the same form letter that she had received the first time.

Wanda is not alone. In St. Joseph, Missouri, Lee Apparel Company eliminated almost 500 jobs. A survey of employees at this factory revealed that 91 percent of them were women. Forty two percent of them were single parents. And they made $8.26 on average.

One of these victims, Diana Richardson, worked at the Lee Apparel plant for 23 years, ever since she left high school. She told the St. Joseph News-Press that the company's offer of $2,300 in severance pay was a "slap in the face." According to the Department of Economic Development for the State of Missouri, the average wage at placement of Lee workers has been $6.70 per hour, and the average wage at dislocation was $8.26 per hour.

I am here today to speak out on behalf of Wanda Napier and Diana Richardson and all the men and women who lost their jobs in Seymour and St. Joseph and in communities throughout Missouri and throughout America.

Who's going to plead their case?

(Mr. Chairman, I would like to submit for the record a copy of Wanda Napier's correspondence and the sorry and insensitive replies that she received.)

NAFTA'S FAILED PROMISES

Mr. Chairman, four years ago we all listened intently to the proponents of NAFTA. When they weren't singing the praises of Carlos Salinas, they were promising that NAFTA would create hundreds of thousands of new jobs.

It didn't happen.

Instead, we saw Mexico develop into an export platform rather than a promising consumer market.

We've seen the loss of more than 300,000 jobs (and that's using the Administration's own methodology). We've watched our worst nightmares come true—the acceleration of U.S. plant relocation to the maquiladora areas south of the border and the loss of U.S. jobs. The maquiladora industry employs approximately 900,000 workers in more than 2,600 plants. It is Mexico's leading growth industry.

We've also seen Mexico's chief export of illegal drugs overwhelm our border agents like an avalanche, with Mexico taking its place as the leading exporter of heroin and cocaine to the United States.

And we've seen the utter failure of the agricultural inspection system along the border. The result? An unprecedented threat to the safety of our food supply.

We've seen karnal bunt for the first time inside our border; bovine-related tuberculosis on the rise; and tainted strawberries and raspberries from points south.

Please do not parrot the delusion of U.S. exports to Mexico. Northern Mexico has become an export platform back to the United States—a cheap wage haven of rising pollution.

The fact is the trade deficit with Mexico and Canada has quadrupled since NAFTA was implemented in 1994 and is rising each year, in nominal and real terms. In 1994 the trade deficit with our NAFTA partners was $13.3 billion; in 1995, it was $33.5 billion; and in 1996 it was $39 billion. [Chart]

You and I know the havoc that NAFTA has caused in communities throughout our country: runaway plants, lost jobs, declining tax bases, and increased downward pressures on the wages and benefits of every single worker in our country.

Trade agreements have a human face. Before we pass an expanded NAFTA or act on fast track, we should look at some of these faces.

The faces of children in Michigan who got hepatitis by eating contaminated strawberries—likely grown in Mexico.

The faces of families in Texas and California who are threatened on the highways by unsafe trucks that are streaming across our borders from Mexico, that are completely overwhelming our inspection system at all border checkpoints and that are sometimes carrying contraband, including illegal drugs.

ABANDONED PLANTS, ABANDONED WORKERS

Finally, we should look at the faces of thousands of workers whose bosses threaten to move to Mexico unless they accept lower wages and benefits.

Nationally, we have seen the loss of hundreds of thousands of jobs due to NAFTA, including 19,400 in my own state of Ohio. That figure comes from a study that will be formally released next week by the Economic Policy Institute.

Even the shoddily-run program of adjustment at the U.S. Department of Labor has identified at least 136,802 workers who have lost their jobs due to NAFTA. That much is inarguable, because each of those one hundred thirty six thousand workers has been certified under the strenuous tests used by the Department of Labor under the NAFTA Trade Adjustment Assistance program.

But that number grossly understates the dimension of the job problem. Let me illustrate: Guess Jeans cut the percentage of its clothes sewn in Los Angeles from 97 percent prior to NAFTA down to a mere 35 percent, sending the work to factories in Mexico, Peru and Chile. More than 1,000 Guess workers in southern California lost their jobs in the fall of 1996 alone. Of course, the majority of these workers were minorities and women.

But NAFTA–TAA has no record of any of those workers having applied for NAFTA–TAA, much less having received assistance under the program.

Where did they go? What are they doing? Who will speak for them? Certainly not the Clinton Administration. But I still have hope for Congress.

Now the same people who brought us a flawed NAFTA are back before the Congress, demanding fast track authority so the President can extend NAFTA to the other countries in the hemisphere and implement a far-reaching Multilateral Agreement on Investment—and we are uncertain of what else is contained in the proposal.

RECOMMENDATIONS

Instead of putting these trade agreements on the "fast track," we should slow down and make sure we iron out the bumps in the road so we assure we arrive at the destination NAFTA intended.

I have introduced legislation to that end. H.R. 978, the NAFTA Accountability Act, would require that NAFTA live up to the promises that its proponents made back in 1993 in the areas of jobs, labor and environmental standards, illegal drugs, immigration, and currency valuation, among other things.

If it turns out that NAFTA is working as they had planned, fine. But if it's not, then we have to go back and fix it. After all, it is intended to be a blueprint for future accords. And if we can't fix it, then we should junk it.

We should reform the NAFTA–TAA program so that it's there for people when they need it. Currently, only 57 percent of the petitions for help from dislocated workers are approved by the Labor Department.

The Labor Department should require that companies who move jobs out of the United States because of NAFTA must make information available to displaced workers about the NAFTA–TAA program. Currently, employers are not required to post information about the NAFTA–TAA program for workers who have lost their jobs due to NAFTA.

Only those workers who know about the program and choose to apply for it are even given consideration by the federal government.

We should expand the coverage of the NAFTA–TAA assistance, because the job losses are bound to continue. Currently, only certain types of workers in certain types of industries can qualify. Moreover, only workers who produce a product—not a service—that is *directly* related to NAFTA are eligible for assistance.

As the late Sir James Goldsmith pointed out, in today's global economy a multinational company can employ 47 workers in Vietnam or the Philippines for the cost of one person in a developed country, such as the United States. With completely unregulated free trade, working families in developed countries are pitted against working families in underdeveloped countries.

"You don't have to be a genius to understand who will be the winner in such a contest," Goldsmith said. "It must surely be a mistake to adopt an economic policy which makes you rich if you eliminate your national workforce and transfer production abroad, and which bankrupts you if you continue to employ your own people."

Mr. Chairman, Congress has a constitutional responsibility handed down to us from the Founding Fathers for the way in which our nation conducts international trade. We certainly do not assume that responsibility by ceding our constitutional authority over trade to the Executive Branch via the fast track.

Especially in today's so-called global economy, it is imperative that we take our congressional and constitutional responsibilities seriously.

We also have ultimate responsibilities to the people who have been left behind by the fast track approach to trade agreements. Isn't it time someone in authority here in Washington acknowledged their plight?

As Professor Shaiken said in an op-ed piece in yesterday's Los Angeles Times, "Fast track without labor and environmental protections is a bridge back toward the 19th century rather than a link forward to the 21st."

Thank you for your time.

[The attachments are being retained in the Committee files.]

Mr. SHAW. Thank you, Marcy.

The gentleman from Arizona, Jim Kolbe, is recognized.

STATEMENT OF HON. JIM KOLBE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. KOLBE. Thank you, Mr. Chairman. Well, I guess the testimony you have heard indicates that people that were for NAFTA are still for it, and those that were against it are against it. So some things don't ever change I guess. But I do appreciate the opportunity to testify this morning. I think this is an important hearing.

First let's put this thing in the context. Trade agreements in general, and NAFTA is no exception to that, are long-term propositions. NAFTA itself gets phased in over the course of 15 years. A lot of its key provisions haven't been implemented. I think it's premature to say, unequivocally, one way or the other that NAFTA is a complete success or failure. We need more time.

Nonetheless, this hearing is important because I think that any objective examination is going to conclude that NAFTA in its preliminary phases, first 3 years, has worked and worked very well. We all know that over the last 2 years, Mexico has experienced a severe economic crisis. There is a misconception among a lot of people, and I think sponsored by a lot of people who opposed NAFTA in the first place that NAFTA caused this crisis, but nothing could be further from the truth.

The financial crisis in Mexico in 1995 was caused by an over dependence on foreign capital, coupled with protracted overvaluation of the peso. That overvaluation occurred during an election year for political reasons. That's been known to happen in other countries, I might add. Then they bungled the devaluation. That caused foreign investment to take flight, and the government needed outside assistance to prevent a default.

I have said repeatedly that the best test of a trade agreement is not just how it works in good times, but how it works in bad times. I think under these circumstances, NAFTA did exactly what we wanted it to do. Far from worsening the crisis, it has helped stabilize both the political and the economic situation in Mexico, and Mexico's response to the crisis. It prevented Mexico from resorting to the standard solution of developing countries had heretofore used, which is impose import barriers, restrict capital movements, limit economic activity with other countries. That was precisely Mexico's response in 1982 during the last major peso devaluation. Then they imposed 100 percent duties on American products and set strict licensing requirements on foreign producers. What was the result? Our exports plunged 50 percent between 1981 and 1983. Export-supported jobs were cut by more than one-half. It took 7 years to get back to the level that we were before that peso devaluation.

In this case, however, we got back within 1 year, and we only had an 8.9-percent drop in the exports. I think NAFTA has worked to stabilize, to make the ups and the downs much less.

I think there's another serious misconception about what NAFTA has and has not done. Many of NAFTA's critics point to a bilateral trade balance which has shifted from a U.S. surplus to a U.S. deficit after NAFTA was signed into the law. Now I don't subscribe to the mercantilist concept, that a trade surplus with a particular country is always good, while a trade deficit is always or necessarily bad. We know that trade balances shift over time from one region or country to another, shifts that are dependent on a lot of different economic factors. Still, opponents of NAFTA view the shift in the trade balance with our NAFTA partners after the passage of NAFTA through a mercantilist lens, asserting that our deficit with Mexico is necessarily bad for the United States economy.

Drawing on the sequence of events, these critics argue that NAFTA somehow caused the bilateral balance of trade to shift. That is simply not true. It has no foundation. Any cursory analysis of the factors in play over the last 3 years demonstrates that NAFTA had little, if anything, to do with the shift.

Let me again make the point that I made before. The swing in the bilateral trade balance resulted from the peso crisis and the resulting recession, not from NAFTA. The recession drastically reduced Mexican domestic demand, making more of its domestic output available for export while simultaneously reducing demand for United States exports—by dramatically increasing the dollar prices of those goods and services. A furthering shift was that Mexico's exports were enhanced by a cheaper devalued currency, which made Mexican goods cost less in the United States, about one-half as much as they did before the devaluation.

During the debate on NAFTA, there was a lot of concern among opponents about the number of jobs that would be lost due to a rush of American companies moving south of the border, the great sucking sound that Dave Dreier referred to earlier. The best estimate based on those that have qualified for assistance is that 120,000 jobs have been lost. Now during the same time, we have created 8.9 million new jobs. In fact, the weekly shift up and down in employment in the United States is 60,000. Our unemployment rate is currently 4.9 percent. That is the lowest we have had in 25 years. The Clinton administration reminds us of that frequently. We are at close to full employment as we have probably been in a long time. So I don't see how you can assert that NAFTA has caused this extensive job loss.

One thing is for sure: Two-way trade with Mexico has boomed in the last 3 years. In the first full year of operation, our trade was $100 billion, up from $80 billion in 1993. The last year, 1995, we had a glitch on our side because of the peso devaluation. But in 1996 it reached $140 billion. These numbers are pretty significant, it would seem to me.

There is no question that Mexico is undergoing unprecedented economic and political liberalization. We have a congress for the first time in 70 years in Mexico that is controlled by the opposition. What NAFTA did was help to lock in place Mexico's economic reforms, secure a stable export market for the United States products, even in difficult times. Are there still trade issues that need to be resolved with Mexico? Of course there are. I personally believe our countries need to come to agreement regarding the border trucking issues and small package delivery. But these are relatively minor irritants in a complex and growing economic partnership, a partnership which I believe benefits Mexican and American workers and consumers while enhancing the international competitiveness of both of our countries.

Trade is not a zero sum game where one country wins while another has to lose. Under NAFTA, both the United States and Mexico win. Mr. Chairman, I am confident that's precisely what you are going to determine from this hearing today.

I thank you.

[The prepared statement follows:]

Statement of Hon. Jim Kolbe, a Representative in Congress from the State of Arizona

Mr. Chairman, members of the Commission, thank you very much for allowing me to testify this morning. I am pleased to be a part of this important and timely hearing.

First, I think it is important to put this hearing in context. Trade agreements in general, and NAFTA is no exception, are long-term propositions. NAFTA itself is to be phased in over fifteen years and many of its key provisions have yet to be implemented. Its probably more than a little premature to say unequivocally that NAFTA is a complete success or failure.

Still, I do believe any objective examination will conclude that NAFTA has worked, and worked well, over the past three years. We all know that over the past two years Mexico has experienced severe economic crisis. Unfortunately, there is a common misconception among some that NAFTA caused this crisis. I don't think anything could be further from the truth.

Mexico's financial crisis was caused by an over dependence on foreign capital coupled with protracted overvaluation of the peso. When a bungled devaluation caused foreign investment to take wing, the government needed outside assistance to prevent a default. I have said repeatedly that the best test of a trade agreement is how well it works in bad times. And I think NAFTA has worked well. Far from worsening the crisis, NAFTA helped stabilize Mexico's political and economic response to the crisis. It prevented Mexico from resorting to the standard solution of developing countries in economic crisis—imposing import barriers, restricting capital movements and limiting economic activity.

This, in fact, was precisely Mexico's reaction to their financial crisis in 1982. Then, in response to a similar overvaluation, Mexico imposed 100% duties on American products and set strict licensing requirements on foreign producers. The result? U.S. exports plunged by 50% between 1981 and 1983. U.S. export supported jobs were cut by more than half. It took nearly seven years for U.S. exporters to recover. Based on this experience, without NAFTA, in the wake of the peso crisis, U.S. exporters could have faced a $25 billion plunge in sales to Mexico and not recovered before 2000. Instead of causing the Mexico financial crisis, NAFTA lessened its impact and helped Mexico quicken its economic recovery.

I think there is another serious misconception about what NAFTA has and has not done. Many of NAFTA's critics point to a bilateral trade balance which shifted from a U.S. surplus to a U.S. deficit after NAFTA was signed into law. Now I personally do not subscribe to the mercantilistic concept that a trade surplus with a particular country is always good while a trade deficit is necessarily bad. We also know that trade balances tend to shift over time from one region or country to another, shifts which are dependent on a number of economic factors. Still, opponents of NAFTA view the shift in the trade balance with our NAFTA partners after the passage of NAFTA through a mercantilistic lens, asserting that our deficit with Mexico is bad for the U.S. economy. Then, drawing on the sequencing of events, these critics argue that NAFTA somehow caused the bilateral balance of trade to shift. Such an assertion is without any foundation.

Any cursory analysis of the factors in play over the past three years demonstrates that NAFTA had very little, if anything, to do with this shift. Let me make one point absolutely clear: the swing in the bilateral trade balance resulted from the peso crisis and its—not from NAFTA. The recession drastically reduced Mexican domestic demand, making more of its domestic output available for export while simultaneously reducing demand for U.S. imports. Furthering the shift was the fact that Mexico's exports were enhanced by a cheaper, devalued currency which made Mexican goods cost about half as much for the American consumer as before NAFTA. Given these conditions, it is no wonder that U.S. imports to Mexico declined while Mexican exports to the United States increased.

During the debate on NAFTA, there was great concern among opponents about the number of jobs that would be lost due to a rush of American companies moving across the border to take advantage of Mexico's comparatively lower wages a phenomena summed up in terms of a "great sucking sound." But what have we seen over the last three years? The best estimate of displaced workers that can be traced to imports from Mexico and Canada is approximately 120,000. Note that this job displacement is not necessarily caused by NAFTA, but job losses related to imports from Mexico and Canada. Many of these workers would probably have been displaced without NAFTA. Whatever the cause, there is no question that to each one of these workers, any job loss is a major job loss.

But to assert that NAFTA caused wholesale unemployment in the United States, as many of its critics did and continue to do, simply flies in the face of the facts. Since NAFTA, the U.S. economy added approximately 8.9 million net jobs. In fact, the weekly shift—up or down—in aggregate employment in the U.S. is about 60,000 workers. Our unemployment rate hit 4.9% in 1996—the lowest rate in 25 years. Many economists now consider the U.S. to be at or very near full employment. Given these facts, it is unclear to me how NAFTA's opponents can continue to assert that NAFTA has caused extensive job loss in the United States.

One thing is clear however. Two-way trade under NAFTA has boomed over the past three years. In its first full year of operation, Mexico-U.S. trade topped 100 billion dollars, up from 80 billion in 1993. In 1996, two way trade with Mexico reached a record high of $140 billion dollars. These numbers are significant. Growth in two-way trade represents increased specialization which results in maximum utilization of each country's resources. And maximum utilization of resources leads to greater competitiveness.

There is no question that Mexico is undergoing unprecedented economic and political liberalization. What NAFTA did is to lock-in-place Mexico's economic reforms and secured a stable export market for U.S. products, even in difficult times. Are there still trade issues that need to be resolved with Mexico? Of course. I personally believe that our countries need to come to agreement regarding border cross-trucking and small package delivery. But these are minor irritants in a dynamic, complex and growing economic partnership—a partnership which I believe benefits Mexican and American workers and consumers while enhancing the international competitiveness of both our countries. Trade is not a zero sum game where one country wins while another loses. Under NAFTA I believe both the United States and Mexico win. And, Mr. Chairman, I am confident that this is precisely what this hearing today will bear out. Thank you.

Mr. SHAW. Thank you, Mr. Kolbe.

Our last witness in this panel is Ms. Velazquez. Please proceed.

STATEMENT OF HON. NYDIA M. VELAZQUEZ, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Ms. VELAZQUEZ. Good morning, Mr. Chairman, Mr. Matsui, and other Members of the Subcommittee. Thank you for this opportunity to testify before your distinguished panel. As this Subcommittee begins consideration of fast track legislation, I am here today as a Member of the Small Business Committee to bring to your attention an issue that often is overlooked, the impact of NAFTA on small businesses. I am sure each of my colleagues has heard the stories from suppliers and distributors, typical small businesses who have seen their larger clients relocate to Mexico or Canada. The disruption in these business relationships can be devastating for many small businesses and their communities. Many large companies have downsized or outright moved away to keep their costs down. A large company can afford to make such a move. A small business, however, usually cannot nor will not relocate. Family-owned small businesses which have been operating for generations are in serious jeopardy.

To complicate matters, there is the lack of information about effects of NAFTA on small businesses. The administration's 140-page study on the operation and effect of the North American Free Trade Agreement did not look at the impact of the trade treaty on our small firms. The 800-page report released by the International Trade Commission which took an exhaustive look at the impact of NAFTA on over 200 industries did not dedicate even one page to the effect of NAFTA on small business.

The Labor Department's NAFTA trade adjustment assistance program does not track whether dislocated workers worked for large or small businesses. This concerns me, Mr. Chairman. Small businesses employ 53 percent of the private work force and account for 47 percent of all sales in this country. Small business-dominated industries were responsible for an estimated 75 percent of the 2.5 million new jobs created during 1995. This lack of attention of the effect of NAFTA on small business is of particular concern to me because of the opportunities these ventures provide to women and aspiring entrepreneurs from disadvantaged communities.

As of 1996, there were 7.7 million women-owned firms that provided jobs for 50.5 million persons, more than that employed by the Fortune 500 industrial firms. Blacks, Latinos, and Asian-Americans are playing key roles in our economy with their enterprising spirit and hard work. We must protect and encourage this trend.

The Members of the Small Business Committee recognize that the consequences of NAFTA on small business must not be ignored. Last month during reauthorization of SBA, that Committee unanimously adopted my NAFTA Small Business Relief proposal. This instructed SBA to take actions through assistance programs to address the needs of small businesses harmed by NAFTA.

As many of you know, the needs of small businesses are unique—access to capital needs, basic technical and managerial counseling. Many need help to market their products. But we must act now. We must include special provisions to address the effect on small businesses in any fast track or NAFTA legislation. Small businesses and the families and communities they support have too much at stake. It will be too late after the damage is done to correct the worst impact.

Recently, the administration finally implemented a NADBank-related program to provide loan and credit assistance to businesses in 35 communities adversely affected by NAFTA. That is a good beginning. However, the assistance is limited and comes almost 5 years after NAFTA was enacted. My colleagues, I believe we have a special responsibility to address the effects NAFTA has had on small business. Too many jobs are involved, too many communities are in fear of being the next ones hit by mom and pop shops closing down. Our small businesses must continue to be the engine that drives this economy.

I look forward to working with you, Mr. Chairman, Mr. Matsui, and the rest of the Subcommittee to address this important matter. We must do whatever we can to help the backbone of our economy, our family-owned businesses and small businesses deal with NAFTA and expanded world trade.

Thank you very much, Mr. Chairman.

[The prepared statement follows:]

Statement of Hon. Nydia M. Velazquez, a Representative in Congress from the State of New York

Good morning. Mr. Chairman, Mr. Matsui and other Members of the Subcommittee, thank you for this opportunity to testify before your distinguished panel.

As this Subcommittee begins consideration of fast track legislation, I am here today as a Member of the Small Business Committee to bring to your attention an issue that often is overlooked—the impact of NAFTA on small business.

I am sure that each of my colleagues has heard stories from suppliers and distributors—typical small businesses—who have seen their larger clients relocate to Mexico or Canada. The disruptions in these business relationships can be devastating for many small businesses and their communities.

Many large companies have downsized or outright moved away to keep their costs down. A large company can afford to make such a move. A small business, however, usually cannot nor will not relocate. Family-owned small businesses, which have been operating for generations, are in serious jeopardy.

To complicate matters, there is a lack of information about the effects of NAFTA on small businesses——

The Administration's 140-page *Study on the Operation and Effects of the North American Free Trade Agreement* did not look at the impact of the trade treaty on our small firms.

The 800-page report released by the International Trade Commission, which took an exhaustive look at the impact of NAFTA on over 200 industries, did not dedicate even one page to the effects of NAFTA on small business.

The Labor Department's NAFTA-Trade Adjustment Assistance (TAA) program does not track whether dislocated workers work for large or small businesses.

This concerns me, Mr. Chairman. Small businesses employ 53 percent of the private work force and account for 47 percent of all sales in the country. The small-business-dominated industries were responsible for an estimated 75 percent of the 2.5 million new jobs created during 1995.

This lack of attention of the effect of NAFTA on small business is of particular concern to me because of the opportunities these ventures provide to women and aspiring entrepreneurs from disadvantaged communities. As of 1996, there were 7.7 million women-owned firms that provided jobs for 15.5 million persons—more than that employed by the Fortune 500 industrial firms. Blacks, Latinos, and Asian-Americans are playing key roles in our economy with their enterprising spirit and hard work. We must protect and encourage this trend.

The Members of the Small Business Committee recognize that the consequences of NAFTA on small business must not be ignored. Last month during reauthorization of SBA we adopted a proposal to instruct SBA to take action through its existing assistance programs to address the needs of small businesses harmed by NAFTA.

As many of you know, the needs of small business are unique. Many need access to capital. Some need basic technical and managerial counseling. Many need help to market their products. Thus, we should tailor a federal response to meet these special needs.

But we must act now. We must include special provisions to address the effects on small businesses in any fast track or NAFTA legislation. Small businesses and the families and communities they support have too much at stake. It will be too late after the damage is done to correct the adverse impact.

Recently, the Administration finally implemented a NADBank-related program to provide loan and credit assistance to businesses in 35 communities adversely affected by NAFTA. That is a good beginning. However, the assistance is limited and comes almost five years after NAFTA was enacted. That is unacceptable.

My colleagues, I believe we have a special responsibility to address the effects NAFTA has had on small business. Too many jobs are involved. Too many communities are in fear of being the next ones hit by "mom and pop" shops closing down. Our small businesses must continue to be the engine that drives this economy.

I look forward to working with you, Mr. Chairman, Mr. Matsui, and the rest of the Subcommittee to address this important matter. We must do whatever we can to help the backbone of our economy—our family-owned and small businesses deal with NAFTA and expanded world trade.

Thank you, Mr. Chairman.

Mr. SHAW. Thank you.

Mr. Matsui.

Mr. MATSUI. Mr. Chairman, I have no questions. I want to thank the four witnesses here and Mr. Dreier, who left.

Mr. SHAW. Do any of the Members on the Republican side have any questions? On the Democrat's side?

I guess we had pretty complete testimony. We thank you all for testifying. I would like to mention just one thing though that the effect of side agreements and what not. They really have not been affected. Yesterday at a Florida delegation meeting, I'll direct this to you, Mr. Kolbe, I guess, more than anyone else. Is that it became apparent that Mexico was blocking all Florida citrus into Mexico and for what they call sanitation reasons. I think we need to—and I think if we are going to get a treaty with Chile or anyone else that we want to, that we are going to have to see, we are going to have to vigorously enforce what we have with Mexico. Truly, I think if anything could have gone wrong, it did go wrong with Mexico's economy during the first years of NAFTA. There's no question about that, everything from corruption to the collapse of the peso. We are not dealing with Mexico now. I understand that Chile is quite a different country. It is much more like ours, with a strong economy, environmental protections, labor protections, things that we just don't see in Mexico. I think it would be wrong to play politics on this.

However, I think there are many of us that will see this as an opportunity to do some cleanup under the Mexico fast track vote in which we feel that some of our in some areas that we were short changed.

Do you have any comment on that? I know you worked on me very hard to get my vote on NAFTA. Now I'm asking you to explain what we might be able to do to correct that situation.

Mr. KOLBE. Mr. Chairman, yes. I am not familiar, well, I am somewhat familiar with the particular thing you are talking about. It illustrates exactly what we have been talking about and we have heard from some of the other panelists here today, how countries use as a political tool sanitary standards. Now they should be based on science, pure and simple based on science. We ought to have an international way of doing that.

But countries all too often, whether it's Mexico and sometimes the United States, base them on political reasons, not on scientific reasons. We should make sure countries aren't allowed to do that, whether it is Mexico, the United States, the European Union that blocks all United States beef because of hormones. You can't sell beef in Europe. We should be saying, No, no, look, there's a scientific standard here and even they acknowledge the scientific standard, but for political reasons they can't do that.

I want to just also make it clear that we're really not talking about further trade just with Chile. For example, 1999 is the year that we are going to have massive negotiations on agriculture. We want to open up European and other regions of the world markets to the U.S. agricultural sector. We're the largest exporting agricultural country in the world. Those talks are vital to us.

Mr. SHAW. But the point I am making, and I think it's a point that needs to be made, at least I think the Florida delegation is one of the largest in the Congress. In a meeting yesterday, looking around the table, I think I was closer to voting yes than anyone else who was present at that meeting. I think in order to get the votes, it's going to be incumbent upon the administration in the next month or whenever it is that they are going to finally come to us with the fast track legislation, that we are going to have to see some movement by the administration toward enforcing the rights of the United States under the NAFTA with Mexico.

Mr. KOLBE. I agree.

Mr. SHAW. Because if they don't, I am afraid the fast track is going to go down. I think the fast track is important, but it's only important if we enforce and our government enforces the rights of the United States under that agreement.

Mr. LEVIN. Mr. Shaw, could I comment very briefly on that?

Mr. SHAW. Yes.

Mr. LEVIN. I am very glad you raised it. You have a habit of raising such cogent issues.

I just want to comment on it.

Number one, your comment assumes the relevance of these issues in trade negotiations. That's what part of this argument is about. These issues are economic issues. They are relevant, including the standards both as to labor markets and the environment, as to health statutes and so forth, in developing nations like Mexico.

Number two, enforcement is critical. We argued about that when we were discussing NAFTA. I favor expanding trade as long as the rules of competition are addressed, clearly addressed, and there's enforcement. With Mexico, it was clear in the discussions that there were totally inadequate enforcement procedures to carry out what was in that agreement. We not only wanted there to be agreements within the major context, but also enforcement procedures that were meaningful. There were not any. At least there were very few. Where you had enforcement procedures, they were essentially subject to a veto by Canada, in the few places where you had enforcement mechanisms.

I hope that as we face these issues, as the Republicans do as well as Democrats, as the administration does, that we recognize these as economic issues where enforcement as you have suggested is critical.

I want to say one last thing quickly. We need further agricultural discussions and negotiations. If fast track were related to renewed agricultural discussions through WTO, we wouldn't be having this controversy.

Mr. KOLBE. This?

Mr. LEVIN. We are having this controversy essentially because of these burgeoning relations and competitive conditions with developing countries that have very different structures than the United States of America. So I hope, Mr. Chairman, that your comment will be taken very, very seriously and we will address this issue of enforcement within the body of discussions in any agreement.

Ms. KAPTUR. Mr. Chairman, might I just comment? I was one of the Members that opposed side agreements because I thought issues of significance should be in the body of the main agreement.

Mr. SHAW. I think we found that out.

Ms. KAPTUR. I just wanted to say that I do not favor the administration's current references that some of these issues can be dealt with in side agreements, because in such critical areas as agriculture, we have been gravely disappointed.

In our testimony, we reference a bill we have authored which now has close to if not 100 cosponsors, H.R. 978, the NAFTA Accountability Act. In that act, and I would ask Members of the Subcommittee to reference that as they study, we talk about the administration reporting back on the results of different provisions of NAFTA, including agriculture. For example, in your tomato industry in Florida, we have no good information that has been prepared from the administration. We have lots of victims. I think for us to legislate more fast track without fixing what's wrong with the current arrangements is truly not fair to our people.

I thank you for your interest in that, and would merely recommend that Members take a close look at H.R. 978, the NAFTA Accountability Act.

Mr. SHAW. Thank you. Well, I think the Members, many of the Members, I know the Florida Members are going to be watching the enforcement in the next month before the final vote. That could be, and the administration should be very much aware that that could very seriously influence many of our votes on this fast track. I hope they do because I think fast track authority with dealing with Chile and some of the other South American countries is very important to the trade in the United States, but we have to find that there is a willingness, a desire to aggressively enforce the rights of Americans under the agreement with appropriate sanctions.

I thank you.

Mr. NUSSLE. Mr. Chairman. Excuse me. I have no knowledge about the Florida citrus issue, but I am curious. Certainly, there are growing pains as we move through this, but I am wondering about the process that Florida would have at its disposal if in fact there was a problem with Mexico not allowing in citrus before NAFTA. What would be our remedy? We know what it is. And maybe this goes to the panel. The thing I have observed is that at least we have a beginning, a starting point. We have an opportunity for looking whether it's inside agreement or in the body, at least there is something there.

Before NAFTA, my understanding is that your——

Mr. SHAW. There is enforcement proceedings that are in there. Obviously, any trade agreement is a two-way system. They say you know what it was before and is it any different after. You are supposed to get something when you give something. We gave something and we want to be sure we get something. To get something is to get fair trade.

Perhaps I should have held my remarks for the U.S. Trade Representative, who is the next one. Perhaps you would like to direct those questions to the trade representative. There is a process for enforcement. Whether a complaint has been filed by the Florida people, I do not know. But I think that is an appropriate question.

Mr. KOLBE. Mr. Chairman, the Chairman is correct. There are enforcement mechanisms. They do have limitations on them. Both the countries involved have to have a will to make them work.

I would just point out we have arbitrarily refused to implement the trucking provisions of the NAFTA, even though there is no legal provision for us not to implement those. We have just said we are not going to allow the trucks in, even though they were supposed to have been allowed in 2 years ago.

Mr. LEVIN. But do ask the U.S. Trade Representative, Mr. Nussle, because I think one of the problems is that the NAFTA essentially set up a structure that superseded other abilities of the United States to act. It set up a new structure. But the problem was there were no meaningful enforcement provisions.

As Mr. Kolbe has said, it depended on the will of both nations except in a few areas, but there Canada had essentially veto power. You cannot have a meaningful bilateral agreement where it simply leaves the enforcement up to consensus because the nation that wants to take advantage will do so with impunity.

Before NAFTA, we had more abilities to act. Mr. Kolbe is in a sense correct. We have refused to enforce some provisions in part because there has been a lack of an overall enforcement mechanism. We have to do better in fast track legislation next time around within the body of agreements that are reached with other countries, especially developing countries.

Mr. SHAW. Mr. Matsui.

Mr. MATSUI. I would like to just make an observation. I know we have a long series of speakers, and so we want to move this along. But I think what Mr. Nussle says is correct. Frankly, we still have trade sanctions, such as section 301 available to us. Our problem is is that if one country refuses to cooperate, the option open to us then is some kind of sanctions, trade sanctions. Then all of a sudden you see retaliation. Before you know it, we can find ourselves in a trade war with a country. Obviously, they might hit Michigan or may hit California. Who knows where they might hit. When that happens, then Members start saying, Gee, maybe I don't want to do this. That's what our frustration is.

The reality is that ultimately, as Mr. Kolbe says, it still requires a cooperation of the countries. But you do have a framework and you have dialog going on. But you don't have any built-in sanction like a world court and a police force that enforces these things. As Mr. Kolbe says, we're not complying with the trucking provisions now because we have grave reservations about them.

Mr. KOLBE. And the agreement permits Mexico, as a result of that, to sanction some of our products. They came up with a whole list. A number of United States exports to Mexico were badly hurt, a number of agricultural exports to Mexico were badly hurt because of our failure to implement the trucking provisions. They were allowed to do that under the NAFTA.

Mr. LEVIN. But Mr. Matsui, when you reach an agreement and do not have a provision for enforcement, you are essentially withdrawing from yourself other means of enforcing those provisions.

Mr. MATSUI. Sander, the problem is that we had this debate during the implementation of the WTO. We didn't want to give up, we the United States, did not want to give up our sovereignty. So we're not going to let the WTO tell us that if you don't comply United States, we're going to do this to you. Now, you can't have it both ways.

Mr. LEVIN. Except with the WTO——

Mr. MATSUI. Either we're going to have a world body that's going to have an enforcement mechanism, or you are going to say it's going to have to be worked out by the countries. But you do have an agreement, your framework, and obviously public opinion. Then if it comes down to it where you finally get frustrated, then you impose economic sanctions. You don't want to do that because I guarantee retaliation will occur, and they will come at us at a very vulnerable situation.

Mr. SHAW. I am going to let that be the last word. Once again, thank you to this panel.

Mr. LEVIN. Thank you for raising your question, Mr. Shaw.

Mr. SHAW. Our next witness, who has already been sort of introduced, is Hon. Jeffrey M. Lang, who is the Deputy U.S. Trade Representative. Again, we have your full testimony. We invite you to proceed as you wish. As you can already guess, we will have some questions for you at the end of your testimony.

Ambassador Lang.

STATEMENT OF HON. JEFFREY LANG, DEPUTY U.S. TRADE REPRESENTATIVE

Mr. LANG. Good morning, Mr. Chairman. Thank you, Members of the Subcommittee. I will try to briefly summarize, Mr. Chairman, because I know time is short.

Over the last 4 years, a period which achieved the lowest combined rates of unemployment and inflation since the sixties, and unprecedented investment-led expansion, one-third of our economic growth has come from exports. The NAFTA was created to help the United States capitalize on the changes in the global economy by opening up the North American economy. The President's July study, which is the subject of this hearing, indicates the NAFTA has had a positive effect on our gross domestic product: employment, income, investment, and wages.

Let me just talk about a couple of the highlights of the testimony in the report. First, the effect on trade barriers. NAFTA was designed to gradually eliminate the tariff and nontariff barriers to trade and investment in North America. Under the NAFTA, for example, Mexico has reduced its trade barriers significantly and dismantled protectionist rules and regulations. In contrast, the United States, which started with much lower tariffs and market access barriers generally, has made only slight reductions.

Let me put this in specific terms. Before the NAFTA, Mexico's applied tariffs, the actual tariffs on United States goods, averaged 10 percent ad valorem. United States tariffs on Mexican imports into the United States, their applied rates, averaged 2.07 percent ad valorem, and over one-half of Mexican imports already entered the United States duty free. Since NAFTA, Mexico has reduced its average applied rate from that 10 percent by 7.1 percentage points. The reduction in the United States for comparison is 1.4 percentage points. Some of these U.S. tariff reductions would have occurred anyway under the Uruguay round, even if NAFTA had not been in effect.

Beyond tariffs, NAFTA requires improvements in Mexico's intellectual property rights regime, its standard setting, the elimination of trade balancing requirements, all kinds of performance requirements, and significant additional modifications. Again, the United States is required to do relatively little in regard to these matters.

Now second, the NAFTA effect on this economy. I am not an economist, but as you can see from the NAFTA study and from the other materials that have been submitted in aid of this hearing, isolating NAFTA's effects on the U.S. economy is a real challenge. It's only been in effect for 3 years. There has been a severe recession in Mexico, a depreciation of their currency, and United States reductions of tariff rates in connection with the Uruguay round. Remember, 50 percent of the U.S. schedule will be at zero when the Uruguay staging is fully in place 3 or 4 years from now. That applies to the whole world, including Mexico.

The administration view is that the NAFTA has contributed to our current economic expansion and had a modest net effect on exports, income investment, and jobs supported by exports. It's facilitating investment and the creation of higher than average paying United States jobs supported by these exports to Mexico and to Canada.

Now the effect on the Mexican economy: Our view is that the NAFTA has helped in the Mexican economy. The best standard I can find is to compare Mexico's recovery in 1996 with its recovery from its previous financial crisis in 1982. The NAFTA, of course, was not in effect then. That reveals that both the Mexican economy and American exports recovered rapidly. You might even say much more rapidly following the 1995 crisis than it did earlier. That was in part because of the economic reforms that were locked in by NAFTA, and in part due to the market opening requirements of NAFTA.

Now a few comments on sectoral effects: In general, United States suppliers have seen their share of Mexico's imports grow since NAFTA has gone into effect, from 69.3 percent to 75.5 percent. That mostly reflects an average tariff advantage over non-NAFTA exporters of about 10 percentage points. Just a few examples in sectors I picked out from the report: In the textile sector, Mexico has cut textile tariffs by 10.7 percentage points. The United States share of Mexican imports is up 17.2 percentage points to 86.4.

Transport equipment sector: Mexico cut tariffs 10.2 percentage points under NAFTA. The U.S. share is up 19.2 percentage points to 83.1 percent. Electronic goods and appliances: The Mexican tariff cut was 9.0 percentage points. The U.S. share is up 5.7 percentage points, about 75 percent.

Several industries have experienced strong United States import growth from Mexico. But in many cases, as the report shows, Mexican imports have displaced imports for other regions. Let's take a really sensitive sector, apparel. The share of United States imports supplied by Mexico rose from 4.4 percent of our global imports to 9.6, from 1993 to 1996. But at the same time, the share of United States imports from China, Hong Kong, Taiwan and Korea, the big exporters, fell from 39 percent of our imports in 1993 to 30 percent in 1996. Just about two-thirds of the value of Mexican apparel imports in 1996, by the way, was comprised of United States content.

Finally, Mr. Chairman, let me say a brief word about labor and the environment. Under the North American Agreement on Labor Cooperation, there is this unique submission process which subjects member governments to public and international attention for alleged failure to enforce labor laws. The submission process has contributed to some interesting outcomes which we think are useful, such as the recognition of a union previously denied recognition, and permitting secret union ballots at two companies where previously union votes were not secret. In the period between 1993 and the end of 1996, Mexico's Secretariat of Labor and Social Welfare has increased funding for enforcement of labor laws in Mexico by 2½ times, 250 percent.

In environment, the environmental institutions established under NAFTA are certifying and financing infrastructure projects designed to improve the environment along the United States-Mexico border. To date, 16 projects with a combined cost of nearly $230 million have been certified by the BECC, Border Environment Cooperation Commission, and more generally, the North American Development Bank, so-called NADBank, will be able to leverage its capital into $2 or $3 billion in lending. In fact, some important projects are about to come before the NADBank in the coming week or two.

Through the NAFTA mechanisms, Mexico has agreed to join the United States and Canada in banning the pesticides DDT and chlordane. That will ensure that these toxic substances which are long lived will no longer cross the southern border.

The United States and Mexico have launched a Border XXI Program which establishes 5-year objectives for cleaner border environment and some specific blueprints for achieving them.

Finally, Mexico itself has established a voluntary environmental auditing program. It has completed audits of 617 facilities to date. Of these, 404 have signed environmental compliance action plans. That represents a little more than $800 million in environmental investments in Mexico.

In conclusion, Mr. Chairman, we believe the NAFTA is gradually accomplishing its central objective of opening the Mexican market, our second largest export market. Open trade is not an end in itself. We seek the long-term economic security of American workers. That is always paramount. We continue to believe that appropriate improvements are desirable.

Let me say one final general word. That is, NAFTA is not the prism through which all elements of U.S. trade and investment policy and the future should be viewed. It is important, but we need to be global and multifaceted in our trade policy and in our strategies for getting agreements in order to succeed in this global marketplace. We are convinced the NAFTA and the other market opening agreements we have negotiated, and will negotiate in the future working with you and other Members of Congress, are in the interests of the U.S. economy and its work force. We look forward to working with you.

Thank you very much, Mr. Chairman. I would be glad to take your questions.

[The prepared statement follows:]

Statement of Hon. Jeffrey Lang, Deputy U.S. Trade Representative

Mr. Chairman, Members of the Committee, thank you for this opportunity to discuss the North American Free Trade Agreement.

TRADE AND THE U.S. ECONOMY

Trade expansion is a key component of the President's economic policy program for The U.S. Over the last four years—a period which achieved the lowest combined rates of unemployment and inflation since the 1960s and an unprecedented investment led expansion—one third of our economic growth has come from increased exports. With this in mind, this Administration is determined to continue the vigorous effort to both open foreign markets and level the global commercial playing field and promote the expansion of our exports and trade.

More than 11.5 million U.S. jobs now depend on exports—an increase of 1.7 million from just four years ago. These are good jobs: the wages of jobs supported by goods exports are 13–16% higher than non-trade-related jobs in the economy. It is imperative we continue our efforts to generate more of these jobs for The U.S. as we enter the 21st century.

The U.S. is competing successfully across a wide array of sectors. In fact, our economy has been judged to be the most competitive large economy in the world for the last five years. Our economy is the envy of the world, and positions us to succeed to an unparalleled degree as we enter the next century. In the last four years, exports of manufactured goods increased 42%; high technology exports increased 45%, services exports, 33%; and agricultural exports, 41%; all to record highs.

Our ability to sustain growth and prosperity in the years to come depends significantly upon our ability to tap effectively into emerging markets, particularly in Asia and Latin America which are projected to grow at rates three times the U.S. growth rate, while at the same time remaining vigilant in our efforts to open the mature economies of our traditional trading partners. In the global economy, more than 95 percent of the world's consumers reside outside the United States. Of the more than 30 million annual additions to the world's middle-class and upper-class consumers, an estimated three quarters are found in emerging markets and other low and middle income countries. Latin America alone, if current trends continue, will exceed both Japan and Western Europe combined as an export market for U.S. goods by the year 2010. Already, Latin America is our fastest growing export market, even though the tariffs within the region average four times higher than the average U.S. tariff. Similarly, the Asian Pacific Rim has been our second fastest growing export market in recent years, but again its market access barriers are also significantly higher than U.S. barriers. The elimination of market access barriers in the global marketplace is fundamentally in the interests of The U.S. given that The U.S. is the most competitive large economy, and the most open large economy in the world.

NAFTA AND U.S. TRADE

The NAFTA, which encompasses the world's largest free trade area, was created to help the United States capitalize on the changes in the global economy by opening the North American economy. Unprecedented in scale and complexity, the NAFTA was a strategic step forward for U.S. trade policy. Only three and one-half years into its fifteen year implementation process, it has already yielded benefits for U.S. citizens. The President's July Study indicates the NAFTA has had a positive impact on our GDP, employment, income, investment, and wages.

Two-way trade with our NAFTA partners has grown 44 percent since the NAFTA was signed, compared with 33 percent for the rest of the world. U.S. trade with our North American partners accounts for nearly one-third of our trade with the world.

Between 1993 and 1996, U.S. goods exports to Canada were up by 33.6%, to $134.2 billion. U.S. exports to Mexico grew by 36.5%—or $16.2 billion—from 1993 to a record high in 1996, despite a 3.3% contraction in Mexico's domestic demand and a 14 percent drop in 1995 alone.

Outstanding progress has continued into this year. In the first six months of 1997, Mexico and Canada accounted for 49 percent of the growth in total U.S. exports. U.S. exports to Mexico were up nearly 23 percent from the same period in 1996, and 1996 was a historic high—a remarkable accomplishment considering Mexico underwent its worst economic downturn in modern history in 1995. U.S. exports to Canada in the first six months of this year are up 12 percent over last year's historic high as well. Perhaps even more remarkable, U.S. exports to Mexico in the second quarter of this year exceeded U.S. exports to Japan, even though Mexico's economy is one-twelfth the size of Japan's.

NAFTA's Effect on Trade Barriers

The NAFTA is accomplishing what it was designed to do: gradually eliminate the tariff and non-tariff barriers to trade and investment in North America. This is particularly important to the U.S. given the historic inequity that exists in the relative openness of the markets in North America. Under the NAFTA, Mexico has reduced its trade barriers significantly and dismantled protectionist rules and regulations, while the United States—which started with much lower tariffs and market access barriers generally—has made only slight reductions.

For example, before the NAFTA, Mexican applied tariffs on U.S. goods averaged 10 percent. U.S. tariffs on Mexican imports averaged 2.07 percent, and over half of Mexican imports were already entering the United States duty-free.

Since the NAFTA, Mexico has reduced its average applied tariffs on U.S. imports by 7.1 percentage points, compared with a reduction of 1.4 percentage points by the United States. The United States, it should be noted, would have reduced some of these tariffs under the Uruguay Round, even in the absence of NAFTA.

Beyond tariffs, the NAFTA requires improvements in Mexico's intellectual property rights regime, standards setting, the elimination of trade balancing requirements and other performance requirements. The United States is required to do relatively little in this regard given our longstanding openness to commerce that has served us well, our advanced intellectual property rights regime, transparent standards setting procedures, open investment regime and relative lack of non-tariff trade barriers more generally.

NAFTA's Effect on Jobs in the U.S. Economy

The President's Study reviewed findings from a variety of outside studies and analyzed both Mexican and U.S. data, attempting to isolate the effects of the NAFTA from other factors. Isolating NAFTA's effects on the U.S. economy is challenging since it has only been in effect for three years and events such as Mexico's severe recession, the depreciation of the peso, and U.S. tariff reductions under the Uruguay Round occurred during the same period. However, the NAFTA's results and resilience so far give us plenty of reason for optimism.

Based on a careful review of studies from a variety of prestigious institutions, the Administration concludes that the NAFTA has contributed to our current economic expansion and has had a modest positive effect on net exports, income, investment and jobs supported by exports. The Study finds that the NAFTA is facilitating investment and the creation of higher than average paying U.S. jobs supported by exports to Mexico.

Goods exports to Canada and Mexico supported an estimated 2.3 million jobs in 1996. This represents an increase of 311,000 jobs since 1993—189,000 supported by exports to Canada, and 122,000 by exports to Mexico. DRI estimates that NAFTA contributed $13 billion to U.S. real income and $5 billion to business investment in 1996, controlling for Mexico's financial crisis. These estimates suggest that the NAFTA's impact, isolated from other factors, has boosted jobs associated with exports to Mexico between roughly 90,000 and 160,000.

An earlier study by the Dallas Federal Reserve finds that NAFTA raised exports by roughly $7 billion and imports by roughly $4 billion. The relatively greater effect on exports partly reflects the fact that, under NAFTA, Mexico reduced its tariffs roughly 5 times more than the United States.

In implementing NAFTA, both the Administration and the Congress recognized that while expanded trade provided real opportunities, there would also be some worker dislocation. The Trade Adjustment Assistance Program and the new NAFTA Transitional Adjustment Assistance Program provide the tools for trade-impacted workers to obtain the skills they need to adapt to the global economy. These programs are an important commitment to American workers.

NAFTA's Effect on Wages

The President's Study indicates that the NAFTA is helping to generate additional U.S. export supported jobs paying higher than average wages by providing competitive enterprises and workers with new opportunities. Increased exports and trade leads to greater productivity, and greater productivity is the key to higher incomes.

In the United States, real earnings are up over the period from 1993 to July 1997, with the gains coming in recent quarters: real hourly earnings, up 1.9%; real weekly earnings, 1.6%. The real incomes of every quintile of the workforce increased between 1993 and 1996, with the largest percentage increase for those in the lowest quintile. Furthermore, a CEA/Department of Labor study found that from February

1994 to February 1996 more than 68% of the new jobs created paid above the median wage.

NAFTA'S EFFECT ON THE MEXICAN ECONOMY

The NAFTA has also helped Mexico's economy, which is in our interests, both indirectly and directly. In 1995, Mexico experienced its most severe economic recession since the 1930s. Comparing Mexico's recovery in 1996 with its recovery from its financial crisis in 1982, when the NAFTA was not in effect, reveals that both the Mexican economy and U.S. exports recovered more rapidly following the 1995 crisis, in part because of the economic reforms locked in by the NAFTA and its market opening requirements. Mexico's strong economic adjustment program and bilateral and multilateral financial support were also important.

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

Following the 1982 financial crisis, Mexico raised tariffs by 100 percent and clamped down on imports with severe licensing requirements; U.S. exports to Mexico fell by half and did not recover for nearly seven years. In 1995, Mexico continued to implement its NAFTA obligations even as it raised tariffs on imports from other countries. As a result, U.S. exports recovered in 18 months and were up nearly 37% by the end of 1996 relative to pre-NAFTA levels, even though Mexican demand over the period was down 3.3%. Furthermore, the U.S. gained an even greater share of Mexico's import market through this period. For example in agriculture:

- U.S. agricultural exports to the NAFTA countries have increased from $8.87 billion in 1993 to a record $11.59 billion in 1996. The United States had an agricultural trade surplus of over $1 billion with its NAFTA partners in 1996.
- U.S. export performance with Mexico has been particularly strong, with exports increasing nearly 15 percent per year, on average, between 1993 and 1996, to a record $5.4 billion. The twelve fastest-growing commodities—corn, pork, soybeans, wheat field seeds, vegetable oils, cotton, sugar and related products, barley, pulses, beef and veal, rice, and soybeans—together increased $2 billion, more than 150 percent.
- U.S. agricultural exports to Canada grew nearly 5 percent per year between 1993 and 1996, to a record $6.1 billion. Twelve commodities—corn, pork, cotton, orange juice, sugar and related products, hides and skins, beverages except juice, soybean meal, wine, peanuts, field seeds, and rice—as a group, increased $382 million, up 42 percent from 1993.
- Some of the biggest gains in U.S. exports to Mexico due to NAFTA have been for sorghum, cattle, beef, dairy products, apples and pears. U.S. exports of these products were 10 to 30 percent higher in 1996 than they would have been without the agreement.
- U.S. agricultural suppliers hold dominant market shares in both Canada and Mexico. In 1996, the U.S. share of Canada's total agricultural imports was 65 percent and the U.S. share for Mexico was 76 percent. NAFTA preferential tariff rates helped U.S. suppliers solidify, and expand, their market share.

NAFTA'S EFFECT IN KEY SECTORS

Under the NAFTA, U.S. suppliers in many other sectors hold dominant shares of Mexico's import markets and, in some cases, have expanded their shares significantly at the expense of suppliers from other countries. These increases are indicative of the NAFTA's effects, since they control for factors that affect all foreign suppliers similarly, such as Mexico's recession.

U.S. suppliers have seen their share of Mexico's import market grow from 69.3% to 75.5%, a reflection of their 10 percentage point average tariff advantage over foreign suppliers. Mexico's share of U.S. imports has risen from 6.9% to 9.3%, is less than half the percentage point gain in market share attained by U.S. suppliers.

In key sectors where Mexico has cut tariffs, the U.S. has gained market share. In the textiles sector, where Mexico has cut textiles tariffs by 10.7 percentage points under the NAFTA, the U.S. share of Mexican imports is up 17.2 percentage points, to 86.4%. In the transport equipment sector, where Mexico has cut tariffs 10.2 percentage points under the NAFTA, the U.S. share is up 19.2 percentage points, to 83.1%,. And in the electronic goods and appliances sector, where Mexico has cut tariffs by 9.0 percentage points, the U.S. share is up 5.7 percentage points, to 74.3 percent.

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

In several industries that have experienced strong U.S. import growth from Mexico, Mexican imports have largely displaced imports from other regions, which have lower U.S. domestic content. In the textile and apparel industry, the share of U.S. imports supplied by Mexico rose from 4.4% in 1993 to 9.6% in 1996, while the share of U.S. imports from China, Hong Kong, Taiwan and Korea fell from 39% in 1993 to 30% in 1996. Close to two thirds of the apparel imports in 1996 was comprised of U.S. content whereas the U.S. content of apparel imports from these Asian suppliers is minimal or zero.

LABOR PROTECTION

The NAFTA is working for both industry and labor. The North American Agreement on Labor Cooperation (NAALC) that was established by the NAFTA has generated cooperation on fundamental labor issues and enhanced oversight and enforcement of labor laws.

The NAALC submission process subjects member governments to public and international scrutiny for alleged failure to enforce of labor laws. The submission process has contributed to such outcomes as the recognition of a union for the first time and the holding of secret representation union ballots at one company and one federal government department where union representative votes previously were generally not secret. The combination of stepped up cooperation on a variety of labor issues and the submission process is contributing to progress.

Between 1993 and 1996, Mexico's Secretariat of Labor and Social Welfare increased funding for the enforcement of labor laws by almost 250% in real terms. Mexico has reported a 30 percent reduction in the number of workplace injuries and illnesses since the NAFTA was signed. Mexico has issued new occupational safety and health regulations that break new ground in providing protection to workers, including construction and agricultural workers and pregnant women.

Under the NAALC, the Canadian, Mexican, and U.S. governments have initiated cooperative efforts on a variety of labor issues, including occupational safety and health, employment and training, industrial relations, worker rights and child labor and gender issues. As these efforts continue, the capacity of our respective governments to effectively enforce fundamental labor laws and improve working conditions and worker protections increases.

ENVIRONMENTAL PROTECTION

The NAFTA also includes mechanisms to address environmental problems that have long challenged communities along our 2000-mile border with Mexico. In many respects, the NAFTA's environmental agreements are generating unprecedented regional cooperation on broad environmental issues and improved enforcement of environmental laws in North America.

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

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

Through the CEC, Mexico has agreed to join the United States and Canada in banning the pesticides DDT and chlordane, helping ensure that these long-lived, toxic substances no longer cross our border from Mexico. Also, the CEC recently released the first annual pollutant release and transfer register published for North America.

The United States and Mexico have launched a Border XXI Environmental Protection program establishes five-year objectives for a cleaner border environment and a blueprint for achieving them. U.S. and Mexican officials are continuing to reduce emissions from vehicles at border crossings, tracking transboundary shipments of hazardous wastes, and operating and U.S.-Mexico Joint Response Team to minimize the risk of chemical accidents, among other activities.

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

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

Clearly the longstanding problems in the border region have not all been resolved. But the NAFTA's environmental institutions are providing new and powerful tools to address many of these problems that were decades in the making.

CONCLUSION

The NAFTA is bringing fairer trade to North America. No one can dispute the fact that the NAFTA is gradually accomplishing its central objective of opening the Mexican market—our second largest export market in the second quarter of 1997, with plenty of room to grow—to a far greater degree. Mexico's economic reform process is largely locked in by the comprehensive rules of the NAFTA, and the agreement encourages even more market-oriented reforms. Furthermore, the NAFTA expands upon the previous U.S.-Canada Free Trade Agreement by increasing U.S. capacity to service the Canadian market.

Open trade is not an end in itself; the long-term, well-being of the American people, including the economic security of U.S. workers must always be paramount. Furthermore, the NAFTA—as important as it is—is not the prism from which all elements of U.S. trade and investment policy now and in the future should be viewed. We need to be global and multifaceted in our trade policy and agreement strategies to succeed in the vast world marketplace. We are also convinced that the NAFTA and other market opening agreements as well as those we will negotiate working with Congress are in the interests of the U.S. economy and its workforce.

Mr. Chairman, we must continue to chart the important course that builds on our strength to ensure that we open markets around the world and fight for fairness in the global trading arena. I will be happy to take questions.

Chairman CRANE. Thank you, Jeff. And to start out, Ross Perot, you remember, confidently predicted that NAFTA would lead to that great sucking sound of United States jobs and investment relocating in Mexico. I have heard from some of my colleagues here that the sucking sound took the jobs to Texas.

Mr. LANG. Took the jobs from Texas?

Chairman CRANE. Right. No. It took the jobs down to Texas. They are now the second largest export State in the Union.

But according to your figures, have U.S. living standards improved during the years NAFTA has been in effect?

Mr. LANG. Yes. We have added a huge number of jobs. I am not sure I can come up with a number right now. I am sure it's in this book. Over the last 5 years, the added number of jobs is around 11.5 million. That would overwhelm any effect. The important thing is that the export jobs are paying considerably better than any other jobs in the economy. The estimates are 13 to 16 percent above the national average for nonsupervisory production workers. Those are the jobs I am talking about.

We have some estimates of jobs that are supported by exports to Canada and Mexico, but I think it's very difficult to work with these numbers. All we can say is that the economy, as a whole in terms of jobs, is growing very effectively, and that overwhelms any effect of NAFTA which is slightly positive according to the studies we have cited in the President's study.

Chairman CRANE. Since the NAFTA, can you give us some input on the impact of that sucking sound that Ross Perot talked about with job loss? What are the unemployment levels going back over the last 2 or 3 years?

Mr. LANG. The unemployment levels in the United States have been coming down quite dramatically.

Chairman CRANE. Coming down since NAFTA?

Mr. LANG. Oh yes, absolutely. Today, the unemployment level is, I think, in the neighborhood of 4.9 percent.

Chairman CRANE. I heard 4.8, but the thing that is interesting in response to Mr. Perot's charges at the time we were debating NAFTA was that great loss of jobs that would be sucked down to Mexico. If that is correct, why is it we have continued to have reduced unemployment rates, and I think we are at record lows in the last 27 years.

Mr. LANG. Yes, that is true, Mr. Chairman.

Chairman CRANE. NAFTA opponents contended that Mexico would always be too poor to be a significant market for United States exports as well. Has this allegation been borne out by the facts?

Mr. LANG. No, quite the contrary. It is true that in 1995, Mexico had a peso crisis and a resulting recession. But exports have already begun to recover, in great part, I think, because NAFTA kept that market open for U.S. exports.

I remember, because I lived through it at the time, the effects of the peso crisis in 1982. It took 7 years for our exports to recover. Under NAFTA, it took about 7 months. We are now improving our trade balance with Mexico. It has moved from number three to number two as an export market for us.

Chairman CRANE. Ahead of Japan, right?

Mr. LANG. Ahead of Japan. And we in the first 6 months of this year, compared to the first 6 months of last year, the data show that we are running a smaller trade deficit with both Mexico and Canada.

Chairman CRANE. In February 1995, under pressure created by that peso devaluation, Mexico imposed high tariffs on imports of apparel, leather, and footwear, to name just a few sectors. Why were U.S. exports exempted from these tariff hikes?

Mr. LANG. Because of NAFTA.

Chairman CRANE.How does this contrast to the treatment of U.S. exports in 1982 with that peso crisis?

Mr. LANG. Well, what happened in 1982 is that Mexico greatly increased its tariffs, essentially made them prohibitive and applied them on an MFN basis. We were subject to them just like everybody else. I might say that exacerbated the problem in Mexico, as well as creating a problem for us.

Today, Mexico is stronger because it did not have some of those bad options to solve the problems that had caused its recession.

Chairman CRANE. Thank you, Jeff.

Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman.

Ambassador Lang, I want to thank you for your testimony today. I appreciate the report. One of the problems I think the proponents of the NAFTA are facing now is that the job increases that some talked about back in 1993 never occurred. Now people are saying that claims of job claims were exaggerations. I went back and looked at the news clips and had my staff as well. Ross Perot said we would lose 5 million jobs; the giant sucking sound would lose 5 million jobs.

Ambassador Kantor, myself, Kolbe, Dreir, and a number of others, Rostenkowski, Gibbons, Mr. Crane, I checked their statements and not one of them talked about significant job gains or losses. In fact, the most I believe any one of those I mentioned talked about was a net positive or negative in the range of 200,000; and I believe your report speaks of 90,000 to 160,000 net job gains in terms of the additional exports to Mexico. We all knew this back in 1993 and Mr. Kantor, Ambassador Barshefsky, and others, knew this because the Mexican economy was 2 to 4 percent the size of the United States economy. We knew, no matter what, it could not have a significant impact on the U.S. job market.

In fact, if I recall, Mr. Reich talked about 2 million jobs changing their description—job description—every year in the United States, which he attributed to a dynamic economy, because that means we were seeing technological advancement. Unlike what some Luddites might say in the 1890's, and couple that with the additional 2 million jobs that has been created under this administration, you're talking about 4 million jobs, either changing their descriptions or being added.

The reality is that any exaggeration was really caused by—and I don't want to say the opponents—Mr. Perot and perhaps Mr. Buchanan, but certainly Mr. Perot. I think your report reflects, frankly, what Mr. Kantor and the spokespersons, people for the administration, have been saying all along: This would have a positive effect on the United States economy over time because high-tech goods would be sent to Mexico; they're a young market with 80 million people and would be expanding and 72 percent of Mexicans wanted United States goods, if I recall the statistics.

I don't think the results in your report is much different than what you had all predicted would ultimately happen, what we all predicted, the proponents of NAFTA ultimately predicted. Is that your sense and analysis of this?

Mr. LANG. Yes, I agree. I think at the time NAFTA went through, the predictions were as you said; I think 200,000 is the right number. The report confirms these modest effects. When you look at the relative size of the economies involved, it's fairly straightforward why that's true. This is a $7.5 trillion economy; a trillion dollars is a thousand billion. The Mexican economy is $350 billion maybe. You've cut the budget deficit of the United States in the last 5 years by almost three times the size of the Mexican economy. So, the likelihood that lowering our tariffs by 1.5 percentage points would create an enormous job effect would have been an unlikely assumption to make at that time, and that's confirmed by the report.

Remember, if you look at our GSP Program, for example, which provides a zero-duty benefit to two-thirds, roughly 60 percent of our tariff schedule, to the whole developing world, the average reduction in tariffs under that program is double the cut we have made in NAFTA; and it's hard to find the job effects there.

I think what you said is an accurate description of both the report and our position 3 or 4 years ago.

Mr. MATSUI. One other matter, as well, is the fact that we tend to forget, 4 years later, what our goals were. Our market to the Mexican economy was relatively open, if I recall. I remember everybody was talking about maquiladoras. I would go down to San Diego and say maquiladoras are going to ruin our country and that was because our market was open to Mexican products. What we did, if I'm not mistaken—perhaps you can confirm this—is the whole goal of the NAFTA was to reduce Mexican tariffs, and I believe that the Mexican tariffs have been reduced five times as much as United States tariffs over this last 4-year period, or 500 percent more than United States tariffs. Is that a correct statement?

Mr. LANG. Yes, that's about right. Their tariffs have gone down 7.1 percentage points; ours about 1.5 percentage points. So that's just about exactly the order of magnitude of the relative reduction, but remember if you gain a 7-percent margin in selling a product to a large market—this is 90 million people—you're really gaining a significant price advantage. It's very hard to have almost any economy of scale and take advantage of 1.5 percentage points. That's takes a really long production time.

Mr. MATSUI. The last question or line of thought on this is I know some of the opponents of NAFTA have suggested that because we have a United States, Mexican, Canadian trade agreement now, the Mexican economy is stabilized, their government is stabilized, and so we're losing investments. All these investments now are going to Mexico.

Perhaps I should be asking the State Department this, but isn't it in our interest to have a stable Mexican Government and a stable Mexican economy, be the fact that 80 million people border the United States? Wasn't that one of the goals of the NAFTA?

Mr. LANG. Well, it surely is in our interest to have a stable Mexico. We're the only industrialized country in the world that shares a 3,000-mile border with a developing country, and we need economic growth and stability there badly.

I would say on the investment point, in fact, we are actually importers of capital. That rate of importing capital, of course, is invested in plant and equipment here in the United States. It makes up for our savings rate, which is low relative to other industrialized countries. We import capital at something like five or six times the rate, maybe greater than that, that we have exported to Mexico. We're bringing in much more capital than we are investing down in Mexico, and I can get you the exact numbers if you need them.

Mr. MATSUI. I want to thank you for your testimony and look forward to working with you.

Mr. LANG. Yes, sir.

Chairman CRANE. Mr. Herger.

Mr. HERGER. Thank you, Mr. Chairman.

And Ambassador Lang, it's good to have you with us. The district I represent in northern California is very much dependent on the export of our agricultural commodities, particularly, our specialty crops.

I'd like to just ask: Following the 1994 peso devaluation in Mexico, in your opinion, did NAFTA help to limit the deterioration in the bilateral trade balance with Mexico that it would have been had we not have had it?

Mr. LANG. Yes, sir, absolutely. For one thing, it kept the Mexican market open and continuing to open in a way we would have had difficulty doing otherwise, because there's such a deep tariff reduction schedule for Mexico relative to the United States. In other words, they had higher rates to start out with than we did, so they have to come down more each year in order to get to zero by the end of the 15-year period.

More than that, NAFTA's a much deeper agreement than virtually any trade agreement we've entered into. It has standards issues: It covers intellectual property, all kinds of issues that were leading-edge issues in multilateral negotiations. All those things help to stabilize the situation, deny bad policy alternatives to a developing country that might otherwise have adopted them, help to right the Mexican economy more quickly, and then bring back incomes in that country so that they can continue to grow and become a good market for us. So it helped in a lot of ways.

Mr. HERGER. I believe you mentioned in your testimony, compared to the 1980 evaluation, that there was a major difference in how quickly we were able to come back.

Mr. LANG. Yes, the striking difference is time. In 1982 it was 7 or 8 years. For most products in Mexico, it was on the order of 7 months. That's a pretty striking difference.

Mr. HERGER. Thank you. In February 1995 under pressure created by the peso crisis, Mexico did impose some high tariffs on imports of apparels, leather goods, footwear, to name a few. Were U.S. exports exempted from these tariff hikes that they were putting on these goods from other countries?

Mr. LANG. Yes, they were, and more than that, there were other tariff increases, too, which NAFTA protected us from. And as a result, we have increased our share—in that sector, for example, from maybe 75 percent to something like 85 percent of Mexico's imports.

Mr. HERGER. So, just in these areas and comparing what had happened in the early eighties and what had happened now, we can really see some very dramatic differences in our ability to be able to trade and to continue to trade that were not there prior to the NAFTA?

Mr. LANG. Yes, sir, I agree with that statement.

Mr. HERGER. Thank you.

Mr. LANG. Thank you.

Chairman CRANE. Mr. Jefferson.

Mr. JEFFERSON. Thank you, Ambassador Lang, and thank you, Mr. Chairman.

I just have two questions, unrelated.

The first is, I don't know if you were in the room, I guess you were, when a question was raised about enforcement and about the enforceability of side agreements. I want to ask you whether the fact that the NAFTA had some side agreements on labor, environment, and maybe some other issues—that weren't a part of the core agreement as we are describing it—limited the capacity of your office to enforce those aspects of the agreement; whether they had any affect on enforceability of it at all.

Mr. LANG. No, I don't think so. Some of the environment provisions are actually in NAFTA. For example, not using environmental regulation in discriminatory ways, so they're subject to the normal chapter 20 enforcement mechanisms.

With respect to the side agreements, there is a separate dispute settlement mechanism, but it is a dispute settlement mechanism and it is being used. It's being used on the environmental side more than on the labor side. We're not sure exactly why more labor complaints are not being brought, but I cited a few examples in my testimony about things that have been done with respect to organizing and plans and that sort of thing. In any event, those dispute settlement mechanisms exist. We expect them to be vigorous. If necessary, they can result in monetary damages against governments, and if those damages aren't paid, there are remedies provided for on the trade side. So, while we are only at the beginning of this process, there is a dispute settlement mechanism available with respect to the side agreements. That was essential to getting the President's support for the NAFTA in the first place, and I have confidence they will work when fully tested over time.

Mr. JEFFERSON. As far as you're concerned then, though you haven't seen the side agreement enforcement mechanism fully tested because time hasn't permitted for it, you see no difference between the capacity of those enforcement agreements in your results than the other enforcement mechanisms in the core of the agreement.

Mr. LANG. Well, I guess, to be absolutely sure, we'll have to see what happens over time. We're 2½ years into this, but I don't see any reason why they can't work effectively to achieve their objectives with the enforcement of Mexican law. I'm pleased to see the Mexicans have actually increased the enforcement dollars and the number of enforcement people, in both environment and labor. I think that's obviously a response to the side agreements. It's a way of assuring they don't get in trouble under the side agreements, I think.

Mr. JEFFERSON. Changing subjects, I want to follow up a little bit on something that Mr. Matsui brought up about the investment issue.

Wouldn't you say that the United States is a net importer of capital? Does it really answer the question of whether there have been capital outflows to Mexico that otherwise would have been invested in the United States?

Mr. LANG. Well, I'm not any kind of economist. I'm certainly not enough of an economist to know what the opportunity costs are. Mexico did attract some outward investment. I don't have anything that suggests what would have happened to those dollars if they hadn't gone to Mexico, but I would guess those were dollars that were seeking higher returns than were available in the United States with a somewhat higher level of risk. So, I would guess, and maybe the economists who are on subsequent panels can help me with this, the alternative for many of those dollars would have been to go to other developing countries where the returns and risks were higher.

What NAFTA did, I suppose, was attract some of those outward investment dollars because NAFTA created a floor of security for those investors and lowered the risk premium. The reason dollars are invested in the United States, by both Americans and foreigners, is because the risk premium is so low and the return is so certain because we have managed our fiscal affairs in an appropriate way. I don't know that the two things are related, except to say that we are attracting inward investment dollars that are obviously making equipment and plants that enable our workers to be the most productive in the world.

Mexico's trying to import that kind of capital too, some from us, some from other places, but they have a long way to go to come up with the productivity scale to us, and our exports of capital to them are relatively small.

Somebody just handed me some figures: World foreign direct investment in the United States went from $46 billion to $77 billion between 1994 and 1996; and United States foreign and direct investment in Mexico, in the same period, went from $3.7 billion down to $2.7 billion. Those are significant numbers, but they're relatively small compared to our importing of capital.

Mr. JEFFERSON. Now my time is up, Mr. Chairman, but one last thing, if I might.

Mrs. Velazquez, when she testified 1 minute ago, talked about the concerns about small- and medium-sized businesses. How does NAFTA work with respect to encouraging more small- and medium-sized businesses to enter the international market, particularly the market with Mexico? And I'm done.

Mr. LANG. I did have a—if you'll just bear with me 1 minute, I need to get a little more information for you on that, Mr. Jefferson. My impression is that in both Mexico and the United States, NAFTA has made it possible for small businesses to take advantage of productivity improvements that they might not have been able to otherwise. But it is very difficult to carve that effect out of the overall effects of the improving productivity of both economies, particularly, the economy of the United States. I'll just have to try to get you a little more information later on. I'm sorry, I don't have the data with me now.

[The information follows:]

Response:

USTR is not aware of any analysis of the specific impact of the NAFTA on the role of small and medium-sized businesses in the international market. However, research done for all U.S. exports demonstrates the large role such firms play.

- According to the Department of Commerce, 96 percent of US exporters were small and medium-sized businesses with fewer than 500 employees, and 59 percent has less than 20 employees in 1992.
- Between 1987 and 1992, the total number of U.S. firms exporting increased from 104,564 to 127,000. Virtually all of this increase is associated with small-firm entry to exporting.[1]
- A 1994 survey found that of 750 companies with fewer than 500 employees found that 20 percent exported goods and services that year, up from 16 percent in 1993 and 11 percent in 1992.[2]
- A March 1995 study found that women-owned businesses are more likely to develop a new product or service or expand domestic operations than those women-owned firms which do not export or import.[3]

[1] 1Testimony of Lara J. Fitz-Pegado, Assistant Secretary of Commerce and Director General of the U.S. Foreign Commercial Service, March 29, 1995 before the Subcommittee on Procurement, Exports and Business Opportunities. House Committee on Small Business.

[2] Arthur Andersen, "Survey of Small and Mid-Sized Businesses: Trends for 1994." 1994.

[3] National Foundation for Women Business Owners, March 1995.

• While exports has risen dramatically in recent years, small and medium-sized businesses have maintained their share of U.S. exports, at over 70 percent in 1994.

The provisions of the NAFTA provide substantial advantages for small and medium-sized businesses exporting to Canada and Mexico:

• Canada has long been our largest trading partner, and Mexico recently passed Japan to become our second largest trading partner.
• All tariffs on qualifying goods trade with Canada have now been eliminated, while tariffs with Mexico have been reduced by over 60 percent to date, with additional reductions each January 1.
• NAFTA ended requirements that services providers must establish themselves in Mexico, a restriction which is especially costly for small and medium-sized businesses.
• Under NAFTA labeling and standards requirements are non-discriminatory. U.S. suppliers now have the ability to comment on proposed standards related measures and participate in standards development in Mexico and Canada.
• NAFTA has also led to the development of standardized customs procedures and regulations, including the creating of a Customs NAFTA help desk with both U.S. and Mexican staff.

Small and medium-sized businesses also are sharing in the economy-wide benefits the NAFTA is providing for the U.S. economy. A Presidential Study released in July 1997 notes that NAFTA has boosted real exports to Mexico an estimated $12 billion in 1996, and an increase in imports of a more modest $5 billion. NAFTA also contributed $13 billion to U.S. real income growth and $5 billion in business investment in 1996.[4]

While analysis on the specific impact of the NAFTA on small and medium-sized businesses has yet to be done, there are a number of real-world success-stories that attest to the opportunities created by the NAFTA and being utilized to the fullest by U.S. firms. Several examples are attached.

[4] "Study on the Operation and Effects of the North American Free Trade Agreement," 1997, page iii.

Casas International Brokerage, Inc.
San Diego, California
Small business firm

"NAFTA is a big plus for all of North America in a global marketplace. The biggest winners are the NAFTA consumers who will benefit from increased competition. Furthermore, the removal of trade barriers is the key to the continued economic growth of the U.S., Canada, and Mexico.

John E. Jolliffe
Executive Vice President

Casas International Brokerage, Inc., a fifteen-year-old, Hispanic and woman-owned firm, is the largest customs broker along the California-Mexico border, having set a record for cross-border customs transactions since 1993. Since the implementation of NAFTA, the firm's business has increased 18 percent in 1994, 21 percent in 1995, 26 percent in 1996, and 28 percent in 1997.

The tremendous increase in Casas' trade with Mexico over the past four years resulted in the addition of 100 employees to handle the surge of new business generated by falling Mexican tariffs, thus bringing to over 150 the total number of U.S. jobs supported by Casas' business with Mexico. Furthermore, the company moved to a 50,000-square-foot headquarters within a 500,000-square-foot administrative, warehousing, and transportation complex and has plans for an 80-acre $20 million international trade center.

In order to better serve its clientele in this dynamic environment Casas has entered into a partnership with Agencia Aduanal Obregon, the largest Mexican customs brokerage firm in Tijuana, Mexico. The partnership, the only one of its kind in the San Diego/Tijuana area, electronically links the two brokers therefore providing more efficient service to customers who use both companies. Casas/Obregon represents one-stop shopping at the border.

Casas has also made it a priority to hire former U.S. military personnel as a way to take advantage of continued defense downsizing.

Casas was awarded the "Service Organization of the Year" by the World Trade Center of San Diego, due, among other criteria, to having the highest number of accurate filings (100 percent) with U.S. Customs.

Coded Communications Corp.
Carlsbad, California
Small manufacturer and developer of wireless mobile data communication systems

"Cooperation. Opportunity. Competitive advantage. Job creation. Globalization. All these are the real benefits created by NAFTA, for Americans and for small business. The story must be told on both sides of the border. NAFTA is more than just breaking down barriers. It is a fundamental business strategy for small business for growth and job creation in the United States. For Coded, its employees and its suppliers, the promise of NAFTA is a reality."

Gary L. Luick
Chief Executive Officer

Coded Communications is a prime example of how NAFTA can benefit small, high-technology companies. As a result of the Agreement, Coded has seen its sales, its investment, and its employment grow. Coded's high-tech work force has grown by over 25% (from 60 to 77), with plans to expand employment by over 20% more in the next 18 months.

Coded sees NAFTA's greatest significance being the long-term, stable relationship it has produced between the United States and Mexico. This stability is encouraging investors on both sides of the border, meaning new jobs for the Americans who are building products for customers in Mexico. Furthermore, there are ripple effects: in Coded's case, it has exported $1.5 million worth of products bought from U.S. suppliers, thus creating more jobs and economic growth for other American small businesses as well.

Coded demonstrates how NAFTA is changing the small high-technology business' perspective. As Mr. Luick states, "NAFTA is a story about small businesses now able to compete in international markets. It can be simply put: NAFTA is the catalyst for the globalization of small high technology businesses operating in the United States."

Goulston Technologies
Monroe, NC
Small manufacturer of lubricant for synthetic fiber industry

"Goulston's textile chemical lubricants are sold directly to synthetic fiber producers domestically and internationally. Since the passage of NAFTA, our export sales to Mexican fiber producers have increased more than 250 percent."

Norman Cohen
President and CEO

Goulston Technologies employs over 150 people in the research and manufacture of lubricants for use in synthetic fiber production. After the passage of NAFTA, tariffs on most of Goulston's products dropped from 15 percent to zero, giving Goulston a distinct advantage over non-NAFTA competitors. Not only have tariff reductions opened up new opportunities for Goulston in Mexico, but they have also created new opportunities for jobs in North Carolina. Since 1993, Goulston has hired several new employees to better serve their export efforts to Mexico.

U.S. industry and workers benefit when imports of textiles and apparel are sourced from Mexico, since U.S. yarns and fabrics are used in 70% of the apparel that is produced in Mexico, a significantly higher U.S. content than is found in other foreign production. This benefits Goulston two ways--both in its direct sales to Mexican fabric producers and in its domestic sales to U.S. fabric producers who supply the Mexican apparel industry.

Mining Supply Company
Deming, New Mexico
Small manufacturer of mining equipment

"NAFTA has had a very positive impact on Mining Supply Company in the past few years. Because of tariff reductions implemented by NAFTA, sales of our rebuilt air starters to mines in Mexico have increased substantially. This, in turn, has created U.S. jobs."

Brad Marcak
Vice President

Mining Supply Company provides sales and service of industrial gas and diesel engines, transmissions, hydraulic, and pneumatic systems to the petroleum, mining, transportation, and power generation industries. In particular, Mining Supply Company supplies rebuilt air starters to mines in Mexico. Because of NAFTA, U.S.-origin rebuilt air starters have become considerably more price competitive, as NAFTA has dropped the tariff rate from 10 percent to 0 percent. Increased sales to Mexico have led to the creation of three full-time U.S. jobs bringing the total number of employees to ten.

With tariff rates being reduced in the next few years, Mining Supply Company's rebuilt air starters will become even more appealing to mines in Mexico. Mining Supply Company fully expects to increase U.S. employment to meet increased demand.

Multiplier Industries Corporation

Mt. Kisco, New York
Small manufacturer of battery packs

Multiplier Industries Corporation (MIC) started in 1972 with three employees working out of a plant in Mt. Vernon, New York. Over the past 27 years, the company has expanded its facilities by moving in 1987 to a new location in Mt. Kisco, New York. Almost one third of sales are from international business.

MIC, a producer of battery packs for cellular telephones and two-way hand-held radios, has seen substantial growth of its business in Mexico and Canada. Mexican and Canadian sales now account for approximately 20% of total sales. The company feels this is due to a decrease in tariffs and reduced customs paperwork. Sales to Canada and Mexico have also generated more jobs at Multiplier -- the company's employee base has increased by 22% in the past four years due to the growth in NAFTA sales. At Multiplier, NAFTA has meant more sales and more jobs.

Panamax

San Rafael, California
Small manufacturer/leading designer of surge protectors

"*With the reduction of trade barriers following the passage of NAFTA and GATT, we see strong continued growth for our company. The development of export trade by an increasing number of small businesses like ours will be the foundation of expanded American exports. NAFTA is very good for creating U.S. jobs. As for shifting production to Mexico, that just does not make any sense for us. The just-in-time production that we use wouldn't work well from a long distance. And besides, we think that our U.S. workers are the best!*"

Henry F. Moody
President, Panamax

Prior to NAFTA, they were exporting to Mexico, but on a limited basis. The company was and continues to be an active supporter of NAFTA and moved quickly to take advantage of its benefits in order to serve the high-tech market in Mexico. The multi-million dollar company currently attributes 72 percent of its exports to trade with Mexico and Canada.

To meet the increased demand for their products in the NAFTA countries and other Latin American markets, the company recently added a new manufacturer's group. Since NAFTA implementation, it has hired new employees on its manufacturing line and augmented its sales and support staffs to meet the needs of those markets. Increased exports have required the need for the company to purchase additional raw materials from its U.S. suppliers.

Company representative, Carol McClure, reports that declining export costs are a direct benefit of NAFTA implementation. She notes that the progressive lowering of tariffs on their products continues to be a boon, as well as customs and shipping processes that are becoming more streamlined. NAFTA continues to benefit American producers and create U.S. jobs.

Taylor Dunn
Anaheim, California
Small manufacturer and leading designer of electric-powered vehicles

"The passage of NAFTA has created a win-win situation for all countries involved. It has allowed us to retain our American workers, as well as to hire more to meet increased global demand. The NAFTA has been a great benefit for small businesses just like ours."

Balwinder Samra
Vice President

Prior to the NAFTA, only 4% of its total sales were outside of the United States; after NAFTA, the company quickly moved to take advantage of the NAFTA benefits to expand its markets to Mexico.

Prior to NAFTA implementation, Taylor Dunn entered into a joint-venture with a Mexican firm with the intent of having the Mexican firm assemble their unfinished vehicles for sale in Mexico. This move, necessitated by the high pre-NAFTA Mexican tariffs on the finished product but a low tariff on the parts, would have resulted in the loss of American manufacturing jobs. However, because the NAFTA reduced tariff rates on the finished vehicle from 25% to zero, the company has retained its existing American workforce and currently ships completed vehicles to Mexico at a very competitive price.

According to Mr. Balwinder Samra, vice-president of Marketing and Sales, Taylor Dunn has not only retained existing American manufacturing jobs but, due to increased sales, it also has hired an additional 40 to 50 employees in the United States. Due to the global exposure and experience which the company acquired because of its NAFTA sales, Taylor Dunn is now recognized as a high-profile supplier of quality American goods, leading to new opportunities and sales throughout the rest of Latin America as well as in Europe and Asia. Export sales, which were 4% prior to NAFTA, are now 25% of total sales. Mr. Samra says that NAFTA "made a very domestic company into a global player."

Mr. Samra credits the NAFTA for reducing Mexican tariffs, which allowed them to maintain and expand their U.S. work force, as well as for encouraging them to test the global markets. Taylor Dunn believes that free-trade agreements with U.S. neighbors can only increase opportunities for American companies.

Ms. DUNN. Thank you, Mr. Chairman.

Mr. LANG. Sorry.

Ms. DUNN. Welcome, Ambassador; it's always good to have you here. It's especially timely, from my point of view, because I want you to focus on an issue of great concern to constituents of mine back in Washington State and to all apple growers throughout the United States. Last week, on September 1, the Government of Mexico imposed a 101.1-percent duty on imports of all United States red delicious and golden delicious apples, and this is in addition to the 20-percent fee we already pay to export those items into Mexico that will last through the end of this year.

We believe it's a direct violation of the WTO obligations that Mexico has, of the NAFTA, of Mexico's own antidumping standards, and it is going to have a very severe effect on our apple-growers and those who are trying to do business with a neighbor who has accepted a great amount of our apple business over the years. Particularly, it's going to have a very deleterious effect on our apple growers in the State of Washington. I would hope, Mr.

Ambassador, you can tell us what the USTR is doing in terms of activities to impress Mexico with how important it is to withdraw the imposition of this additional tax on our apples that is killing the industry. I wonder if you could enlighten us on what's going on there?

Mr. LANG. Yes, ma'am. I have personally talked with the representative of the industry in Washington State. Both, Ambassador Barshefsy and Peter Scher, who we hope will shortly be confirmed as our agricultural representative, have had discussions with our Mexican colleagues about this. We've encouraged the industry to give us the necessary information to move forward, if necessary, into dispute settlement, which we will do on our own initiative and quickly, if we can't resolve this matter quickly. We obviously need the underlying information to support the litigation posture.

As you can see from a similar—evidently similar—situation, with respect to high fructose corn syrup, a couple of—1½ or 2 months ago. Confronted with that information, we will very quickly get into the dispute settlement system. Our experience, as you know, with respect to a dispute settlement is that in something like 75 or 80 percent of the cases, we are able to favorably settle the matter before we have to get to a panel. I would hope that Mexico could work with us quickly to resolve this problem. We are still awaiting some information from the industry about what they have provided to the Mexican authorities at Secovi in connection with the investigation, but we're ready to move aggressively on this matter.

Ms. DUNN. There's no question that we need to do that. I think that would be in the administration's best interest, and I'm sure you agree as we move up against the fast track authority that the administration is requesting. I will watch with great interest. I have a lot of faith in your effectiveness and in Ambassador Barchefsky's effectiveness, and we'll wait with bated breath to see that this comes out well for our industry, as quickly as possible.

Mr. LANG. I appreciate that; I'll take it back.

Ms. DUNN. Thank you, Mr. Chairman. Thank you.

Chairman CRANE. Are you finished, Ms. Dunn?

Mr. Levin.

Mr. LEVIN. Mr. Chairman, I had my turn earlier, so I wasn't going to participate at this moment, but I just wanted to say something to the ambassador about your description on enforcement. I reviewed the enforcement provisions a few days ago and I really believe we need to be careful about how they're described, because except in terms of labor market areas—except in three areas—there essentially is no effective enforcement provision; it's consultation. In those three areas, it essentially gives Canada veto power. Isn't that correct?

Mr. LANG. Well, not Canada; it gives a panel list.

Mr. LEVIN. But Canada has to——

Mr. LANG. Maybe we ought to discuss this in more detail, so that I understand fully the concern, but I think I agree with the premise that expanding the scope of our labor agreements to other subjects would be a useful thing to do, and guidance from the Subcommittee would be welcome in which subjects we should take up next.

With respect to the three subjects that are covered, being able to get a country to enforce its own laws is the purpose of the agreement. I'm willing to be educated; I don't claim to be the world's leading expert on this, but I do think this is within those three areas which are not unimportant. A significant improvement over the situation that would exist without it, and it is enforceable in the sense of side agreements and environment.

Mr. LEVIN. Well, I suggest you look at the articles. For example, article 29, which provides for enforcement in three areas only: Occupational safety, child labor, or minimum wage/technical labor standards. Outside of that, there really is no enforcement mechanism. In those three areas there has to be a two-thirds vote.

Let's be realistic. What it means is that since it's likely that Mexico, if we were complaining, would vote no—otherwise the issue wouldn't be there—essentially, it gives Canada veto power. So, where you say it would be nice or you would be interested in further action on enforcement, let me suggest that everybody needs to be more clear and more direct on this issue. There's no need addressing these matters, whether they're in supplemental agreements or in the major agreement, if there isn't enforcement, and meaningful enforcement in there. That's one of the issues before us.

I don't understand the argument that these issues aren't trade related to start with. They're economic issues. I also don't understand the resistance to having these provisions enforceable, meaningfully enforceable, like other provisions of an agreement. I don't understand why people think it's not considered germane and even vital. We're talking about competition with countries that have very different standards. We're not talking about imposing our standards. We're talking about a system where the differences narrow over time and starting with enforcement of their own laws and our ability to make sure that that happens, both in labor, market issues, and in environmental issues. I would hope you take another look and that the administration would derive a clear position on it.

Thank you.

Chairman CRANE. Mr. Watkins.

Mr. WATKINS. Thank you, Mr. Chairman. I would like to follow up on something Mr. Levin said, and Dr. Lang, welcome you back.

I've got a concern about some of the enforcement limitations. For instance, yes, NAFTA went into effect January 1, 1994. In some of the working groups, for instance, the technical work group on pesticides met for the first time in March 1996. We talk about fast track; I think we're talking about slow track on some enforcements, and Mr. Levin is correct; this is totally unacceptable. In fact, I think it's a step further; it's human rights. I know Mr. Levin said we don't want to enforce our standards. Let me say, if we put standards on our business and industries and say this is a must for the health and safety of our employees, then we should be requesting some kind of standardization, some type. If not, we're accepting an environment for their people, for their citizens to work, in order to just get cheaper goods or something in here. I think we should work to standardize, try to work because we said its a human rights problem.

As I looked at this package that said they met the first time in March 1996 and agreed to work on the technical problem of pesticide restoration—to me, Dr. Lang, we need to start saying how do we move that quicker and all. For instance, I'd like to ask you when—on the executive summary—it talks about how Mexico has agreed to join the United States in abandoning pesticides DDT and chlordane. If agreed, when is that in effect? Now, we banned it in the United States probably 20 years ago.

Mr. LANG. I'll just have to get the answer; I'm sorry, I don't know. I'm told that probably it has gone into effect, but I will check and make sure and send you a letter.

Mr. WATKINS. Well, this is what's alarming to a lot of our agriculture people, or farmers and ranchers, across this country. It should be alarming to the consumers, because we've said this is not acceptable to our health standards in the United States and we pull that from our farmers and ranchers, but we are allowing it to continue, if I put the dates and all together.

Dr. Lang, I'm alarmed and the fact that there is a certain amount of animosity out there, evidently, is very, very true. So, some of us who have felt, yes, we've got to have this hemisphere of common working together and all that; it's making some of us a little bit nervous about fast track.

Mr. LANG. Well, I think, two comments if I may: One is the basic idea of sanitary and phytosanitary protection, meaning essentially anything in the food supply, is that all of us ought to be able to set our own risk levels. That was an original with NAFTA. It had never existed in our international trade agreements before that. The only requirement is that the measure we take in aid of the risk level we choose be scientifically related to that risk level. So we have a product that we don't allow in this country, because it's a risk to human health and the environment.

Mr. WATKINS. Dr. Lang, I hope you—and I try to be positive—I hope you are hearing what you are saying. Let us set up our own risk level.

Do you think OSHA requirements add to the cost of products produced in this country? I was in business, and I can guarantee you it costs a lot more, so it becomes an economic problem, too. Does the discontinuation of use of certain pesticides and insecticides and everything of this nature for our farm ranchers affect their stocks. It's a risk level; it affects the economic level. If we come in with that attitude, we're just contributing to the lack of equity in our environmental studies and environmental activities out there, as well as inequity in our economic situation.

Mr. LANG. I'm sorry, I wasn't clear. We can apply that risk level to the imports. That's what I meant to say. The risk level we choose for ourselves, we can apply to imports. Without this NAFTA mechanism, we wouldn't have had a way of raising these pesticides issues with the Mexican folks. I'll find the dates that everything went into effect for you, and give you a letter on it, but I believe what we are doing is equalizing that burden for our farmers, as between them and their competitors.

[The information follows:]

Response:

The Council for Environmental Cooperation (CEC) reached agreement in June 1997 on a North American Regional Action Plan (NARAP) on chlordane and DDT. The goal of the NARAP on chlordane is to end use, production, and trade among the three countries (United States, Canada and Mexico) by 1998. Recognizing the health need in Mexico to control malaria, the DDT NARAP goal is to reduce DDT use by 80% in five years while seeking another mosquito-control mechanism. Both the United States and Canada have discontinued use of both chemicals (except for lab testing). The CEC also facilitated agreement on a protocol under the Sound Management of Chemicals Initiative (SMOC) for identifying other substances for future NARAPs.

Mr. WATKINS. My time is up and the Chairman has been very kind to let me come here, and I want to thank him and the entire Subcommittee. Just raising the issue is not enough. I think, as Mr. Levin said, we've got to start some fast track movement because a lot of people are alarmed out there. I thank the Chairman of the Subcommittee for letting me come by and join them today.

Thank you, Dr. Lang.

Mr. LANG. Thank you. I'll get back to you.

Chairman CRANE. Ms. Thurman.

Ms. THURMAN. Mr. Chairman, I, too, thank you for letting me join this discussion this morning. I certainly welcome Ambassador Lang again. We've had some of these conversations before. We've talked actually with the agriculture and things, but I just need to put some of this on the record.

Actually, in some testimony that was given before the ITC in a matter of an investigation, 332381, our Commissioner of Agriculture actually put in some testimony that, basically, had some real concern to some of us in Florida and some concerns that have already been raised by Mr. Shaw, where it said, in 1993, the ITC Chairman, Don Newquest, in an eloquent speech delivered to the southern Commissioners of Agriculture in San Antonio, stressed his support of NAFTA, but openly recognized the big loser would be Florida agriculture. Unfortunately, some of us believe those words have rung true.

Again, on March 24, there was a letter to Gloria Blue that actually talked about in the early negotiations and discussions of NAFTA that there was some need to look at several items, provide safeguard mechanisms for perishable products, gain harmonization of pesticide and technical regulations, consider sanitary, photosanitary and food safety concerns, factor in varying environmental, labor, and infrastructure requirements among nations, allow for snap-back or other adjustments if one nation's currency changes radically compared to close trading partners, consider all forms of subsidy in support of products, and refrain from serious damage to any sector of the economy of our Nation.

The concern that I have and from what I've gathered more recently in a more indepth study, is that none of these or many of these documents and negotiation issues have not been resolved. Yet, as some of us would tell you, Florida we believe has really been hurt by this and some of these issues, had they been addressed, had been looked at. We're now 3 or 4 years into this.

When can we expect some of these items to be put on the table and considered and resolved to some satisfaction?

With that, let me ask one question, because this will bring it to an area where there is some legislation being looked at. The administration has testified in support of the change in the seasonality legislation. So does that support still exist? Is that something we could go forward with? It certainly would have an impact on some of those issues I've just raised.

Mr. LANG. Let me say, with respect to the first question, some of the crop issues you talked about have already been addressed. For example, on tomatoes, we seem to have worked out an agreement with the Mexicans to the satisfaction of the industry in Florida. I know citrus was mentioned earlier. We have now worked out an agreement on Arizona citrus. We have a work plan that the USDA and the Mexican officials are working out on citrus. I think we can look forward to that moving forward here in the near future. I'll have to stay in touch with you about the exact dates, because there are some wrinkles to iron out, but we've been working very hard to get that resolved.

Ms. THURMAN. Is this with Arizona or with Florida citrus?

Mr. LANG. Florida. Arizona's done; we're working on Florida now, and we need to move forward quickly on that because of the upcoming season. We're encouraging Mexico to do that in every way possible. Any other of these agricultural issues you have, we should move forward quickly on them. It is a difficult area, but we are trying to get these work plans together so that the trade can flow.

On the legislation, I think I'll have to get back to you because I'm not familiar with it, unless someone who's here with me——

[Pause.]

Mr. LANG. I'm sorry for the delay.

Ms. THURMAN. That's OK.

Mr. LANG. I have been refreshed on this legislation, which is essentially an additional commodity safeguard. I think we may have to talk to you a little bit about the language, but I think we have supported it in the past and we'll continue to try to work with you on it now.

Ms. THURMAN. Ambassador Lang, there is also going to be some testimony later on this afternoon from the fruit and vegetable folks that will argue that the section 201–202 is not working in their industry and they are very concerned about it. Quite frankly, we've spent hundreds of thousands of dollars in a very expensive move, in attempts to seek that relief. I think in some of the conversation we've heard up here on the remedy issues, I guess the frustrating thing for us is—and I can give you these numbers—while we say we're moving toward them, by the time we get to the final end of this, we potentially won't have Florida agriculture around to worry about in any agreements, and I think that would be just an awful thing to happen to this country and to the safeguard of the food and the quality and the quantity of food that we provide. So, while it may sound good that we're working toward an end, I would just urge that we do this with some urgency before we lose an industry.

Mr. LANG. I'll certainly take the point back. I would say that what we attribute to NAFTA in these contexts—certainly, no one wants to harm Florida agriculture, but NAFTA's effect in agriculture, in many of these crops, has been small because our rates of duty were so low and our protection was so small.

Anyway, with tomatoes as the example, where the industry felt that the legal mechanisms didn't work, we were able to go ahead, notwithstanding that fact, and find a way to make it helpful; and we'll try to be helpful on all these other products you have.

Ms. THURMAN. Mr. Ambassador, I do believe that when we were doing some of the negotiations through NAFTA, the tariffs issue was brought up as a concern over the 15-year period of time, and there was only in one instance, I think frozen orange juice, that we were given that safeguard at all, understanding and recognizing what we potentially thought would be a problem. So, I don't think it's because of a lack of not trying to get that point across.

Chairman CRANE. Is the gentlelady finished?

Mr. English.

Ms. THURMAN. Yes, thank you, Mr. Chairman.

Mr. ENGLISH. Thank you, Mr. Chairman, and I also thank you for an opportunity to participate here today with the Subcommittee.

Welcome, Ambassador Lang.

When your report came out in July, I read it, and it actually left me with a lot of questions which I will try to pose to you quickly and get a quick answer. The report touts, "a dramatic increase in exports to Mexico." What proportion of these exports would you be willing to characterize as part of the revolving-door phenomenon; that is, things that are manufactured in America, sent to Mexico for some assembly or value added, and then exported back—imported back—into the United States?

Mr. LANG. About, I'm told, one-quarter of our exports are returned.

Mr. ENGLISH. One-quarter? OK. How did that compare to the character of the exports to Mexico prior to NAFTA?

Mr. LANG. It was much less.

Mr. ENGLISH. I noticed in your description of the impact of NAFTA you didn't try to quantify the regional effect of NAFTA within the United States. I noted that Pennsylvania has the highest number of NAFTA TAA claims filed, at least in the latest figures I saw. Can you give us any sense of the regional effects of NAFTA, and specifically did the administration review the impact on individual States?

Mr. LANG. I don't believe an effort was made by an individual State. There were some products in which a regional implication was fairly clear. For example, in potatoes there was a clear distinction between the States along the northern border in the West and the States in New England, particularly Maine. But product by product, State by State, I don't believe the ITC or any of the other studies—

[Pause.]

Mr. LANG. So that kind of information I don't think exists and would be very difficult to come up with. I might express one caution here, and that is the use of the these trade adjustment assistance statistics.

Mr. ENGLISH. I note your caution and I recognize the problem with that. I'd like to move on. With regard to the maquiladora phenomena, there have been some predictions that NAFTA would change the nature of maquiladora activities which seem to be associated with very low wages and also an extremely high turnover in personnel. So we're not really talking about a work force that develops substantial skills or really has access to a lot of worker rights. Has there been any increase in wage scales in the maquiladora since NAFTA, and has there been any decline in turnover rates in the work force?

Mr. LANG. Yes. Let me see if I can—the first thing to remember about the maquiladoras is that the phaseout runs through, I think, it's 2001. Since NAFTA went into effect, the maquiladores have been providing a decreasing share of United States imports from Mexico. They're down from 49 percent in 1993 to 38 percent in 1996, and they're also—over the last 2 years, the exports have increased, but not as much as nonmaquiladora exports of Mexico. Maquila exports have increased I think 18 percent, and nonmaquila by 34 percent.

But the important thing is that the maquilas are no longer insulated from competition the way they once were. They were originally designed not to compete in Mexico, but now several things have to happen by January 1, 2001, that are being phased in.

First, they have to pay full Mexican duties on parts and components imported from outside North America.

Second, all the import incentives and restrictions on domestic sales are being eliminated. And, as I said, that's happening gradually. As of January 1 of this year, 70 percent of the value of a maquila's exports in the previous years could be sold in the Mexican domestic market. This will go up by 5 percentage points a year until it reaches 100 percent in 2001.

And, third, the maquilas would operate under tax obligations that are comparable to plants throughout the country.

Now on your wage question, maquilas did pay less than both domestically oriented and export-oriented firms in 1993. However, by the end of 1996, the average monthly real wages surpassed non-export-oriented manufacturing wages in Mexico, real wages in Mexico, by something like 17 percent, and they were nearly the same as export-oriented firms in the general economy. That is, firms with between 40 and 50 percent of their sales are being exported.

There's still a differential, but it's much narrower, with firms that mainly export. Sixty to eighty percent of their sales are exports. There's still a wage differential there, but it's getting narrower.

One other interesting thing about maquila wages is that they declined less during the peso crisis than wages of manufacturing firms that were mainly focused on selling domestically, which you might expect, but it is not insignificant because employment is substantial: a 12-percent decline versus something like a 25-percent decline in the general economy.

Mr. ENGLISH. Well, thank you very much, Ambassador.

Mr. Chairman, I appreciate the chance to ask these questions. My time is up. I have other concerns about the operating of the North American Agreement on labor cooperation and the Commission for Environmental Cooperation. I feel that in your report you talk a great deal about process things, like meetings, seminars, and study tours, but I have not really seen concrete results coming out of the labor and environmental side agreements, and this troubles me greatly.

I appreciate the chance to ask questions here, Mr. Chairman. And Ambassador Lang, I very much appreciate the good working relationship you have had with our office over the years.

Mr. LANG. Thank you very much. We'll be glad to keep it up.

Mr. ENGLISH. Thank you.

Chairman CRANE. Well, thank you very much, Jeff. We appreciate your insights on the effects of NAFTA, and we look forward to working with you and the administration in advancing overall the free trade concept. Unfortunately, there is a profound lack of understanding of the significance of it, and we need your professional input to go beyond just the Subcommittee and to get this message out to the public. We appreciate the work you've done and look forward to working with you in the future.

Mr. LANG. Thank you, sir. I do, too.

Chairman CRANE. I would now like to introduce our next panel of witnesses, beginning with George King, vice president of Eastman Kodak and general manager of the Latin American Region, on behalf of the National Foreign Trade Council; Julius Katz, the president of Hills and Co.; Edie Wilson, trade project director of the Democratic Leadership Council; and Jeffrey Schott, senior fellow at the Institute for International Economics.

And I would like to ask our panel to please try and condense their written statements in oral presentation to 5 minutes, but your complete statements will be inserted into the record. I look forward to your testimony.

And we will proceed first with Mr. King, and in the order in which I presented you to the Subcommittee.

STATEMENT OF GEORGE M. KING, GENERAL MANAGER, LATIN AMERICAN REGION, AND VICE PRESIDENT, EASTMAN KODAK CO.; ON BEHALF OF NATIONAL FOREIGN TRADE COUNCIL, INC.

Mr. GEORGE KING. Thank you. It's a pleasure to be here today, Mr. Chairman.

Mr. Chairman and distinguished Members of the Subcommittee, my name is George King. I'm a general manager of the Latin American Region for the Eastman Kodak Co., and I am a vice president of the company.

I'm appearing before you today on behalf of NFTC, the National Foreign Trade Council, a broad-based group of more than 550 U.S. companies with substantial international operations or interests. I appreciate the opportunity to testify on NAFTA's record.

Kodak and the NFTC strongly supported NAFTA when Congress voted on it in 1993. In our view, NAFTA is working, and working well. It is in our strong national interest, therefore, to keep this landmark agreement intact, and, in fact, see it flourish in the years ahead. And I'll tell you why.

There are several important benefits this country has realized from NAFTA so far, each one measurable, each one in the American national interest, each one a benefit that would not have occurred without NAFTA.

Most importantly, NAFTA's basic goals are being achieved. Primarily, this means leveling the playingfield for trade between Mexico and the United States. Moreover, NAFTA has contributed significantly to progress in overall United States relations with Mexico and has provided strategic benefits as this country implements its broader trade objectives.

But back to my first point about leveling the playingfield for United States-Mexico trade. NAFTA's principal goal was to eliminate Mexico's tariff and nontariff barriers to trade and to establish a trade relationship based on reciprocity. Before NAFTA, Mexican tariffs on United States goods were nearly five times higher than United States tariffs with 50 percent of United States imports from Mexico entering the United States duty free. Mexico has had a variety of rules, requirements, and quotas that inhibited United States sales, and some markets, like telecommunication services, were essentially closed to United States companies.

Despite this recent economic crisis, Mexico has kept its NAFTA commitments to reduce tariffs. Average applied tariffs on United States exports to Mexico now average less than 3 percent, down from 10 percent, with duties eliminated altogether on half of all United States exports to Mexico. Mexico also has removed nontariff barriers, as agreed under NAFTA.

These tariff and nontariff changes, all due to NAFTA, have significantly boosted United States exports to Mexico. The first year of NAFTA exceeded all expectations with U.S. exports growing by 22 percent to $50.8 billion.

Looking at this from Kodak's perspective, my company's experience with NAFTA has been very positive. Since NAFTA, Kodak has saved over $100 million in tariffs on trade among the United States, Mexico, and Canada. This has allowed us to make production decisions based on rational economic grounds instead of tariff or political considerations.

For example, because our United States exports no longer face steep tariffs when entering Mexico, Kodak did not have to manufacture in Mexico to get around trade barriers. NAFTA enabled us to transfer a high-cost photographic manufacturing operation from Mexico to our Rochester, New York, facility, and this has increased efficiency, lowered cost, improved our quality, and made us a much tougher global competitor in the process.

Kodak's overall exports to Mexico have increased roughly 114 percent since 1993 to over $250 million annually, and our exports to Canada have increased 12.5 percent. Taken together, Mexico and Canada buy over $600 million in Kodak exports every year, helping to make our company one of New York State's largest manufacturing exporters. Kodak's imports from Mexico have also increased, providing clear evidence that NAFTA is a win-win proposition for the United States, as well as for its NAFTA partners.

Next, to my point about NAFTA's broader benefits: Although NAFTA is a trade agreement, the closer cooperation it has created in our trade relationship with Mexico has manifested itself in other areas. For example, the rapid turnaround in the Mexican economy, made possible in part by NAFTA, helped Mexico repay early and in full the substantial loan package provided by the United States.

It is also important to note that NAFTA is the most comprehensive trade agreement ever negotiated by the United States. It has served as a guidepost for various other trade negotiations, ranging from intellectual property rights to technical and technological standards. For example, the NAFTA rules for marking country of origin for photographic film are now being adopted by the World Customs Organization, leading to more uniformity and integrity in film labeling.

Consider also the strategic benefit NAFTA provided the Uruguay round of multilateral trade negotiations. NAFTA sent a strong signal that the United States was prepared to eliminate trade barriers on a comprehensive and preferential bilateral basis, and NAFTA also has triggered the spread of trade agreements in our hemisphere, which we hope will serve as building blocks for a Free Trade Agreement of the Americas.

NAFTA doomsayers and fear mongers will tell you the sky is falling. It is not. For Kodak, NAFTA has increased United States exports to Mexico, helped us to avoid costly investments in redundant manufacturing facilities, and focused our high valued-added operations in Rochester. One need only examine the facts as we have outlined them to understand why NAFTA is a win-win situation, and now is the time for us to build on that success, to empower this country further in the international trade by providing fast track authority to negotiate other trade expansion agreements like NAFTA.

Thank you again for this chance to testify on behalf of NAFTA.

[The prepared statement follows:]

Statement of George M. King, General Manager, Latin American Region, and Vice President, Eastman Kodak Co.; on Behalf of National Foreign Trade Council, Inc.

Mr. Chairman and distinguished members of the Subcommittee, I am George King, General Manager, Latin American Region, and Vice President of Eastman Kodak Company. I am appearing today on behalf of the National Foreign Trade Council, a broad-based organization of more than 500 U.S. companies having substantial international operations or interests.

I appreciate the opportunity to testify on NAFTA and its record after three years. Kodak and the NFTC were two leading voices in strong support of enacting NAFTA in 1993 and so it is with great interest that I appear before you today to reflect on this landmark trade agreement. In our view, NAFTA is working well, it is an agreement we should be proud of, and it remains very much in our national interest.

I would like to focus my remarks on three central issues that, in the view of the NFTC and its member companies, are key measurements in gauging the impact of NAFTA: 1) the achievement of NAFTA's basic goals; 2) NAFTA's catalytic effect on the overall bilateral U.S.-Mexican relationship; and 3) the strategic benefits of NAFTA on broader U.S. trade policy objectives. Although NAFTA is a free trade agreement among all three North American countries—the United States, Canada and Mexico—my testimony will focus more on Mexico than Canada in light of the ongoing attention given to that part of the agreement.

THE RECORD IS CLEAR—NAFTA'S GOALS ARE BEING MET

The principal goal of NAFTA was to eliminate Mexico's tariff and non-tariff barriers to trade and to establish a bilateral trade relationship based on reciprocity. Opponents of the agreement tend to forget that the United States is the largest, most open market in the world that was already easily accessible to Mexico before NAFTA. Before NAFTA, Mexican tariffs on U.S. goods were several times higher than U.S. tariffs. Mexico's applied tariffs averaged 10 percent, while U.S. applied tariffs on Mexican imports averaged 2.07 percent, with 50 percent of U.S. imports from Mexico entering the U.S. duty-free. Moreover, in sharp contrast to the U.S., Mexico had local content and export requirements, quota and trade-balancing rules, all of which inhibited U.S. sales to Mexico. Some Mexican markets, like telecommunications services, were essentially closed to U.S. companies.

NAFTA is leveling the playing field for trade between Mexico and the United States, and despite its recent deep economic crisis, Mexico has kept its NAFTA commitments to reduce its tariffs. Several rounds of tariff cuts have taken place and Mexico's applied tariffs on U.S. exports now average less than 3 percent, with duties eliminated altogether on 50 percent of U.S. exports to Mexico. Our average applied tariff on imports from Mexico is now 0.65 percent. Under NAFTA so far, Mexico has reduced average applied tariffs by more than 7 percent, while the U.S. has reduced its average applied tariff by just 1.4 percent.

Mexico has also moved ahead to remove non-tariff barriers as agreed in NAFTA. For example, before NAFTA, Mexico had in place a highly restrictive auto regime of non-tariff barriers, which effectively limited U.S. exports to Mexico to 4,000 cars and 2,000 trucks per year. As a result of the new access provided for in NAFTA, U.S. exports of motor vehicles have grown more than five times.

NAFTA's tariff and non-tariff reductions have significantly boosted U.S. exports to Mexico. The first year of NAFTA exceeded all expectations, with U.S. exports growing by 22% to $50.8 billion. Even in 1995, following the Mexican peso crisis, U.S. exports to Mexico were 11 percent higher than 1993, the year before NAFTA went into effect, and Mexico remained our third largest partner. Since the recovery of Mexico in 1996, U.S. exports have reached record levels—36.5 percent higher than pre-NAFTA levels. Mexico has already begun to replace Japan as our second largest export market for U.S. goods on an annual basis.

Kodak's experience with NAFTA has been very positive. In the three years since NAFTA has been in existence, Kodak has realized significant benefits. We have saved more than $100 million in tariffs on trade among all the U.S., Mexico and Canada. This has enabled us to make production decisions based on rational economic grounds rather than on tariff considerations. For example, because our U.S. exports no longer face steep tariffs when entering Mexico, Kodak was able to transfer a high-cost photographic sensitizing operation from Mexico to our Rochester, New York facility. This has increased our efficiency, lowered our costs, improved our quality, and made us fiercer global competitors in the process.

In addition, the expanded worldwide demand for Kodak's one-time-use cameras, which are produced in Mexico, New York and France, has increased overall demand for 35 millimeter color negative film. This film is produced in our Rochester plant.

Kodak's overall exports to Mexico have increased roughly 114 percent since 1993 and are now more than $250 million annually. Our exports to Canada have increased 12.5 percent. Kodak's imports from Mexico have also increased, providing clear evidence that NAFTA is a win-win proposition for our company and for all three NAFTA partners. Importantly, our facilities in Mexico manufacture goods for Mexico, the United States, Latin America and other world markets.

Other NFTC member companies have had similar positive experiences with NAFTA. For example, Fluor Daniel, one of the world's leading engineering, construction and diversified service companies formed a joint venture company in Mexico in 1993, ICA Fluor Daniel, which has seen its revenues grow an average of 30 percent for the past three years. NAFTA is also benefitting Fluor Daniel's U.S. suppliers. On a major project for Pemex, Mexico's national oil company, the lower tariffs under NAFTA were cited as a primary reason why American equipment was the first choice for the project under consideration. Lower tariffs under NAFTA also resulted in a decision by ICA Fluor Daniel's European partner on a separate Pemex project to ship key components from Europe to the U.S. for final manufacturing and assembly prior to final shipment to Mexico. This is work that would otherwise have been performed in Europe.

Not only is NAFTA breaking down Mexico's very high trade barriers to us and leveling the playing field, it has also promoted U.S. dominance in the Mexican market. Our share of Mexico's imports has grown from 69 percent before NAFTA to 76 percent today. At the same time, our non-NAFTA European and Japanese trading partners have seen their market shares decline.

It is also important to note that NAFTA kept Mexico on the path toward open reform and trade liberalization with the United States during its worst recession in recent history. This is in sharp contrast to what happened during the financial crisis of 1982 when Mexico imposed 100 percent duties and other trade restrictions on American products. It took seven years for our exports to recover then. This time it took only eighteen months. In good times and bad, NAFTA has been a safety net for the over 700,000 U.S. workers whose jobs depend on exports to Mexico.

NAFTA'S BROADER BENEFITS

Although NAFTA is a trade agreement, the closer cooperation it has created in our trade relationship with Mexico has manifested itself in other areas. There has been major progress in our bilateral relations in one issue area after another.

Mexico has taken unprecedented steps in major areas of great interest to the United States. On immigration, for instance, Mexico has agreed to allow the United States to airlift some illegal immigrants back into the interior of Mexico, rather than just across the border. In helping Mexico to develop and grow, moreover, NAFTA is one of the long-term solutions to the ongoing problem of illegal immigration between our two countries.

The same can be said for improving the environment in Mexico. Not only has NAFTA encouraged enhanced cooperation on bilateral environmental issues of concern, but as Mexico prospers and grows, it will have greater resources to increasingly address environmental matters that deserve ongoing attention.

Another important bilateral benefit of NAFTA was the role it played in helping Mexico recover quickly and strongly from its economic crisis. The rapid turnaround in the Mexican economy made possible, in part, by NAFTA, enabled Mexico to repay early and in full the substantial loan package provided by the United States.

The historic July 6 mid-term elections in Mexico point to another significant indirect benefit of NAFTA—promoting a more open and democratic country. By helping to lock in Mexico's economic reforms and creating a more open trade regime, NAFTA has been part of the difficult transition underway in moving Mexico from a closed economic and political system to an open, capitalist democracy. After 68 years of one-party rule, Mexico has now embarked on a path toward greater political pluralism. President Zedillo should be congratulated for his leadership and dedication to the remarkable reforms and changes that have taken place.

NAFTA HAS BEEN OF STRATEGIC IMPORTANCE TO THE OVERALL U.S. TRADE AGENDA

NAFTA has been of strategic benefit to the United States in implementing its broader trade objectives. It is the most comprehensive trade agreement ever negotiated by the United States and has been the standard against which all other agreements are measured. This is not a trade agreement we should shy away from. Rather, it has actually served as a guidepost for various other trade negotiations in areas ranging from intellectual property rights to standards. While the NFTC and its member companies hope that future trade agreements will break new ground in adopting even tougher disciplines on trade, NAFTA is a very solid trade agreement.

Another strategic benefit NAFTA provided early on was its impact on the Uruguay Round of multilateral trade negotiations. NAFTA sent a strong signal to our major trading partners outside of North America that the United States was prepared to eliminate trade barriers on a comprehensive and preferential bilateral basis. The strong concern by other countries, especially in Europe and Japan, that the United States was losing interest in opening up trade on a multilateral basis, instilled greater interest in and urgency to bringing the Uruguay Round to a successful conclusion.

I might add on behalf of Kodak that the WTO, which was created by the Uruguay Round trade agreement, is about to face a major test of its ability to handle systemic Japanese trade barriers when it decides the landmark photographic film case this fall. Kodak is confident that the WTO will not allow pervasive—yet subtle—Japanese protectionism to go unchallenged. Indeed, the film case has important implications for a wide range of American industries, and if we are successful at the WTO, this powerful and important new multilateral tool for dealing with Japan may prove to be one of the Uruguay Round's greatest achievements.

NAFTA also triggered the spread of trade-expanding agreements in our hemisphere, which hopefully will be the building blocks of a Free Trade Agreement of the Americas. NAFTA can also take some credit for the Asia-Pacific region's growing interest in regional trade-expanding efforts sought by the United States, such as the Asia-Pacific Economic Cooperation (APEC) forum. Unfortunately, other countries are now moving ahead to conclude preferential trade agreements that exclude the United States because the U.S. government lacks of fast-track trade negotiating authority.

Without fast-track trade negotiating authority, our ability to access foreign markets is seriously compromised and places us at a competitive disadvantage. Renewal of fast-track must be a top priority for our government. It should be broad in coverage and long-term.

The issue of linking labor and environmental issues to fast-track is controversial. While non-trade objectives are worthy in themselves, they should not be linked to trade expansion nor impede the progress of opening markets around the world. Trade expansion itself brings economic development for our trading partners, which supports improved environmental and labor conditions.

In conclusion, NAFTA has been in our view an unqualified success. NAFTA doomsayers and fear mongers are wrong and one only needs to look at the facts to understand why. The U.S. economy is strong and worldwide competitive. NAFTA—thanks to the willing partnership of our close neighbors—is part of that economic strength. Clearly, we have nothing to fear from Mexico, which is just 1/25th the size of our economy. Now is the time to build on our economic strength by enacting new fast-track authority to negotiate other trade-expanding agreements multilaterally, regionally and bilaterally.

Thank you again for the opportunity to testify on NAFTA.

Chairman CRANE. Thank you.

Mr. Katz.

STATEMENT OF JULIUS L. KATZ, PRESIDENT, HILLS AND CO.

Ms. KATZ. Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to appear before the Subcommittee which is considering the President's comprehensive study of the operation an effects of the North American Free Trade Agreement.

I believe that the President's report is a fair and accurate appraisal of the effects of the NAFTA to date. From my perspective, as the chief U.S. negotiator of the NAFTA, the report's main conclusion—that the NAFTA has had a modest positive effect on U.S. net exports, income, investment, and jobs—is entirely reasonable and unsurprising. In our analysis of the NAFTA's probable effects, prior to starting the negotiations, we expected that the impact on the U.S. economy would be positive, but small. Positive, because Mexico had a much higher level of protection against United States goods than we applied to Mexican products. Thus, we could only gain from an agreement that would bring down Mexico's disproportionately high trade barriers.

At the same time, the direct, measurable effects were expected to be small because the United States economy is 10 times the size of Canada's economy and 20 times the size of Mexico's. Apart from increased exports which would result from a faster growing Mexican economy, and benefits to particular sectors of our economy, the impact on United States economic growth in the aggregate was bound to be modest in percentage terms.

Nonetheless, we also believed that the achievement of a North American free trade area would promote a number of important strategic objectives.

First, the NAFTA would establish new world standards in areas such as services, intellectual property rights, and investment. Second, it would encourage and lock in the economic reforms in Mexico, and help promote a model for reform that others might follow.

Third, it would encourage economic reform and emerging democratization measures in Mexico which would foster economic growth and progress in an important neighbor.

Finally, the NAFTA would strengthen our global leadership.

In its first 3 years, the NAFTA advanced these strategic goals. The NAFTA constitutes the most highly developed set of rules contained in any trade agreement. It has established a standard by which all other agreements are judged.

The NAFTA has helped to further and solidify economic reforms in Mexico. During the peso crisis, Mexico did not close its borders to trade, as it had previously done. While Mexico raised some duties, as it could do under the GATT, it fully met its NAFTA obligations, keeping most of its trade unrestricted. Moreover, by undertaking tough domestic measures, the Mexican economy has almost fully recovered from the crisis and is now again growing at a very healthy rate.

Mexico has faced tremendous challenges over the past 3 years—the worst economic decline since the thirties, political turmoil; and corruption resulting from drug trafficking, fed by a huge, unremitting demand in the United States. These events have cast Mexico in a very unfavorable light.

Despite the NAFTA's critics, the agreement is not responsible for Mexico's ills. Rather, a series of policy errors by the Mexican Government led to the 1995 economic crisis. Nor was NAFTA responsible for, or intended to, remedy by itself social and political challenges such as extreme poverty, narcotics, and a political system dominated for decades by one party.

A fair appraisal of Mexico would balance the problems Mexico faces with the successes it has enjoyed. Despite seemingly overwhelming odds, the Zedillo government has continued to promote political, judicial, and economic reform. Elections since 1994, including those held earlier this summer for a variety of national, State, and local positions, were free of fraud. And for the first time in decades, the ruling PRI lost its majority in the Congress, as well as the important position of mayor of Mexico City.

It is unreasonable to blame or to credit the NAFTA for these events. But the motivations underlying Mexico's and our interest in NAFTA are the same as those that inspire President Zedillo to reform Mexico's political system. A growing and prosperous Mexico depends on a functioning democracy and the rule of law which the NAFTA, and the attention in the United States that the agreement has brought to Mexico, helps support.

Beyond Mexico, the NAFTA has been a watershed event for trade policy. Throughout the world it caused excitement, anticipation, and in some quarters, anxiety. The practical result was to give the United States important negotiating leverage.

There were some immediate consequences. One was to provide a catalyst for the conclusion of the Uruguay round. Another was to stimulate commitments by Asian-Pacific and Western Hemisphere heads of government to achieve free trade in their regions over the next decade or so.

Unfortunately, we have not pressed our advantage and have thereby lost ground. We have failed to carry out commitments made by Presidents Bush and Clinton to bring Chile into the NAFTA.

The reason, of course, is the lapse of fast track negotiating authority since 1994. While the United States has been inactive during this period, others have filled the vacuum. Mexico, which had earlier concluded a bilateral free trade agreement with Chile, has concluded agreements with most countries of the hemisphere and is negotiating the MERCOSUR. Canada now has an agreement with Chile and has announced an intention to negotiate with MERCOSUR. Chile has also concluded free trade agreements with a number of countries in the region, the most important of which is with MERCOSUR.

The Congress should grant President Clinton's request for new fast track authority, so that the United States can resume its position as a trade policy leader.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of Julius L. Katz, President, Hills & Co.

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear before the Committee which is considering the President's comprehensive study of the operation and effects of the North American Free Trade Agreement (NAFTA).

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- First, the NAFTA would establish new world standards in areas such as services, intellectual property rights, and investment.
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The Congress should grant President Clinton's request for new fast-track authority so that the United States can resume its position as a trade policy leader.

Thank you, Mr. Chairman.

Chairman CRANE. Thank you, Mr. Katz.

Ms. Wilson.

STATEMENT OF EDITH R. WILSON, TRADE PROJECT DIRECTOR, DEMOCRATIC LEADERSHIP COUNCIL, AND SENIOR FELLOW, PROGRESSIVE POLICY INSTITUTE

Ms. WILSON. Mr. Chairman, support for trade liberalization, like other aspects of American foreign affairs, has usually been handled on a bipartisan basis, as it should be. Today, with your permission, I would like to speak as a Democrat.

I'm here on behalf of the Democratic Leadership Council, which endorsed NAFTA 3 years ago, to explain why we did so, and why Americans should be proud of President Clinton's and President Bush's historic achievement in expanding ties with our neighbors in North America. By explaining why we believe, based on the evidence to date, that NAFTA has been good for ordinary Americans and serves overwhelmingly the national interest, we hope to demonstrate also why we support further trade expansion.

Maintaining growth in trade is essential to maintaining our robust growth overall, and particularly important to maintaining a surge in manufacturing jobs. That, in a nutshell, is why Americans, Republicans, and Democrats cannot be progrowth without being protrade. Trade is critical to our economy at this moment.

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

[The study is being retained in the Committee files.]

I'm glad to hear the point made, as we go into this analysis, by other witnesses that we must remember in evaluating NAFTA at this time that it has not yet been fully implemented. The benefits to the United States will improve as implementation continues for the full 15 years provided and as NAFTA provides more conditions for increased economic growth in Mexico and Canada.

There are three main lessons to be learned from the NAFTA experience to date which are relevant as Congress considers future agreements. First, the United States can liberalize trade with developing countries, if agreements go beyond reducing tariffs on merchandise trade and cover other essential aspects of a sound and fair trading relationship.

Second, trade does follow trade agreements, and dramatic increases in trade are possible from agreements committed to lowering barriers on both sides.

Third, lowering trade barriers between neighboring countries is one of the most effective ways to increase trade rapidly.

NAFTA is fulfilling its promise. Our trade relations, the benefits to our consumers, the competitiveness of our workers, and the security of our investments are stronger for having concluded NAFTA. It helped increase trade and investment in North America. It has put in place rigorous rules for governing trade, setting a higher standard than previous agreements.

NAFTA to date has not produced a flight of U.S. investment or jobs, and this summer North America was ranked as one of the world's fastest growing regions.

When we look at the agreement's results, however, we are continually reminded that NAFTA was more than trade. It was a path-breaking, comprehensive trade and investment accord that locked in not only a steadily decreasing tariff rate on almost all products, but also significant market reforms, dispute settlement, investment guarantees. These features of NAFTA don't just safeguard American businesses; they protect the technology, the innovation, the processes, and the markets that provide employment for our workers, too.

I would call your attention in our written statement to a comparison of how NAFTA has worked for two key States and two key sectors: Michigan with regard to automobiles, South Carolina with regard to textiles. I'll summarize briefly by saying that in both States, since we signed NAFTA—and, of course, not due simply to NAFTA by any means, unemployment has fallen dramatically. Michigan unemployment is at its lowest in 30 years. Both States have experienced sharp increases in exports, and specifically in exports to Canada and Mexico. Both have benefited specifically from NAFTA's design in regard to content and components made in North America. And we believe they are extremely interesting stories for consideration as we try to understand how NAFTA has not only helped expand markets for United States goods, but has helped position U.S. industries for future competitiveness by strengthening our productive capacity on the North American continent and allowing the three NAFTA partners to benefit from their comparative advantages.

As alluded to by other witnesses, NAFTA has been accompanied by other positive trends, particularly with regard to Mexican democracy. I would also call attention to how NAFTA has introduced to Mexico principles of transparency, the right to appeal government decisions, public access to information, and other processes that are the foundations of open, pluralistic, and democratic societies.

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

At the same time, the American public is right to feel that there is some unfinished business from NAFTA, GATT, and other developments. We must expand the winners' circle of those who can benefit from the new global economy through shared responsibility by government, business, and workers for those Americans who may be left behind.

And, finally, we must move ahead, grant the President broad negotiating authority, and remember that renewed negotiating authority is as vital to U.S. leadership in world affairs as it is to sustaining our economic growth. If America can't negotiate, Americans lose.

[The prepared statement and attachment follow:]

Statement of Edith R. Wilson, Trade Project Director, Democratic Leadership Council, and Senior Fellow, Progressive Policy Institute

INTRODUCTION

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

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

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

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

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

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

ASSESSING NAFTA THREE YEARS OUT

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

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

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

NAFTA LESSONS AND RESULTS

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

We have learned from the Clinton Administration report and the Progressive Policy Institute examination that NAFTA is fulfilling its promise. Our trade relations, the benefits to our consumers, the competitiveness of our workers, and the security of our investments are stronger for having concluded NAFTA. It helped increase trade and investment in North America. It put in place rigorous rules for governing trade, setting a higher standard than previous agreements. Institutions, working groups, and mechanisms that NAFTA created have smoothed the path to allow North American businesses to trade, invest, and position themselves for better productivity and comparative advantage, making our economies stronger against shocks such as Mexico's 1994–95 crisis.

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

Despite dire predictions, NAFTA to date has not produced a flight of U.S. investment or jobs. The U. S. economy now creates in approximately one month the total number of jobs lost due to NAFTA in three years. Today we find that despite NAFTA's reduced tariff barriers and an economic crisis in Mexico in 1995 that lowered the value of the peso and made Mexican labor comparatively even cheaper, the United States has not lost even a small fraction (1/40) of the 6 million jobs that Ross

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

Perot predicted. In fact, under President Clinton's leadership, the U.S. economy has created 8.6 million jobs since NAFTA's inception. NAFTA's impact on jobs in the U.S. economy has been negligible in most sectors with positive job growth in others. Quite simply, neither NAFTA nor GATT nor any of our other lesser trade agreement has hurt the U.S. economy. Instead, they have been a vital component in our economic growth by opening new markets and eliminating barriers.

But when we look at the agreement's results, we are continually reminded that NAFTA was about more than trade. It was a pathbreaking, comprehensive trade and investment accord that "locked in" not only a steadily decreasing tariff rate on almost all products but also significant market reforms, as well as dispute settlement and investment guarantee procedures. It has increased certainty and stability in our commercial relations with our two top customers. No less than fifteen non-tariff accomplishments of the agreement are truly significant, covering areas such as inputs, transparency, services, investment, conflict resolution resolution/protections, and environment.[4] These features of NAFTA don't just safeguard U.S. businesses; they protect the technology, processes, and markets that provide employment for our workers, too.

So, what do we find when we look at this section of the agreement four years later? Trade and investment disputes are now being handled with relative transparency and according to the established procedures agreed to in NAFTA. The agreement was, in particular, a step forward in enhancing the ability of small businesses to participate in international trade. Under NAFTA, small businesses as well as large firms have been given secure market access as well as methods for resolving commercial disputes in a developing country market. No other agreements do this. When the scope of the agreement is considered as well as the vast amounts of trade and investment flows covered under NAFTA's legal boundaries, the number of disputes since 1993 has been surprisingly low. Congress should consider this lack of conflict as a particular endorsement of how well the agreement is working.

STATES AND SECTORS: MICHIGAN AND SOUTH CAROLINA

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

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

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

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

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

state of Michigan, which is the leading manufacturer of automobiles in the United States.[5]

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

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

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

ECONOMIC REFORM AND POLITICAL REFORM

NAFTA has been accompanied by other positive trends. This summer, Mexican democracy took a large, peaceful step forward as voters in state and local elections redistributed power among the three political parties. The PRI, after having been in power for over 60 years, no longer has a majority in the Mexican Congress. Mexican labor unions have moved toward independence from government control, and are becoming more vocal on behalf of their members.[7] These changes make the obvious point: economic reforms symbolized by NAFTA have been accompanied by a process of significant political reform in Mexico.

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

SHOULD NAFTA BE EXPANDED?

The fundamental conclusion we should draw from NAFTA is clear: The prospect of increased trade without the kinds of guidelines, safeguards, and predictability epitomized in NAFTA should be far more alarming to the American people than the proposal to initiate new trade negotiations. If we can negotiate similar comprehen-

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

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

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

sive agreements with other countries, it is in our interest as the world's leading exporter to pursue them expeditiously.

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

EXPANDING THE WINNER'S CIRCLE AT HOME

The American public is right to feel that there is some unfinished business from NAFTA, GATT, and other developments that have changed our economy. Trade, of course, is not the only factor responsible for these changes; actually, technology accounts for more of the economic restructuring we are experiencing.

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

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

MAINTAINING U.S. MOMENTUM AND LEADERSHIP IN TRADE

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

But it is simply unfair to use such concerns or other means to elevate the interests of industries or groups that seek protection from international competition above the interests of workers in exporting industries, of consumers, of communities that benefit from foreign investment, and of every American who benefits from steady growth, low unemployment, and low inflation. There are many approaches to industrial relations, labor rights, pollution prevention, and conservation that can be pursued productively, particularly through international cooperation. There are

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

connections between trade liberalization and these same issues, but they must be explored cautiously.

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

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

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

Thank you.

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Fact Sheet
July 1997

Expanding the Winner's Circle
A New Social Compact

As our stake in the new global economy increases, so does our responsibility to ensure that all Americans have the opportunity to compete effectively. Trade liberalization must go hand-in-hand with a new domestic agenda that offers all U.S. workers lifelong access to career training; provides more effective public support for workers in transition; equips them with the tools to manage their own career security by controlling their health and pension resources; and redefines corporate responsibility in a world of borderless markets.

Create a Lifelong Career Opportunity System for All Americans

- Expand support for apprenticeships to help train young people not bound for college.

- Replace today's ineffective federal job training and adult education programs for displaced workers with individual vouchers. Workers would be able to decide for themselves the best way to build the skills they need to secure good jobs and wages in a rapidly changing economy.

- Create a competitive system of public, non-profit and private One-Stop Career Centers that would give every American access to reliable information, allowing them to choose appropriate education and training providers, apprenticeships, colleges and, ultimately, jobs.

- Reform the tax code to provide all workers with access to job training by: 1) experimenting with tax-preferred savings accounts to help people set aside funds to enhance their career skills; and 2) reforming the tax law so that any firm providing tax-free training to its managers and professionals could not discriminate against other employees by denying them comparable opportunities, as long as workers who take advantage of these opportunities agree to stay with the firm for a reasonable period.

Extend Portable Health Insurance and Pensions to all Americans

- Portable health insurance is critical for workers as they assume more responsibility for their own economic security in the global economy. Although job-based health insurance covers most Americans, workers should have portable benefits that enable those who are changing jobs or are laid-off to retain their health insurance coverage during the transition. To support these workers and those whose employers do not offer insurance, this segment of the population should be able to purchase their own coverage with help from a refundable tax credit.

- Restructuring Social Security to place the program on sound fiscal footing should include changes in our retirement system that promote self-reliance, greater personal responsibility, and a more reasonable tax burden on working families.

- While many workers have portable pensions that allow them to roll over their pension assets when they change employers, this option should be available for every American.

Performance-based Compensation, Equity-Sharing and other Reward Systems

- To provide average Americans with more opportunities and incentives to increase productivity and innovation on the job, firms should be encouraged to establish reward systems that are internally equitable, competitive, and linked to the long-term performance of the firm. Extending the non-discrimination rule that is currently used for health care coverage and pension contributions to this area should be examined. Specifically, when a firm provides tax-favored, performance-based bonuses to executives, all employees should be eligible to earn such compensation.

Chairman CRANE. Thank you, Ms. Wilson.
Mr. Schott.

STATEMENT OF JEFFREY J. SCHOTT, SENIOR FELLOW, INSTITUTE FOR INTERNATIONAL ECONOMICS

Mr. SCHOTT. Thank you, Mr. Chairman. I appreciate the opportunity to come before the Subcommittee and present views that were prepared by me and my colleague, Fred Bergston, who, unfortunately, is unable to attend because of conflicts that arose when this session was rescheduled.

As the cleanup hitter on this panel, let me try, instead of summarizing my statement completely, to drive home a few key points made by previous statements and by previous witnesses, and by yourself and Congressman Matsui. They deal with both how NAFTA has supported strategic U.S. interests and two key areas that are central to the NAFTA debate that also will dominate the upcoming debate on fast track: Employment effects and labor and environmental issues. I can be quite brief on the strategic issues because Julius Katz and others have covered them quite well.

First, NAFTA has met a strategic United States goal in promoting pluralism and democratization in Mexico, and NAFTA has contributed to enhancing both political and economic stability. Obviously, there is a lot more that needs to be done, but the economic opening in Mexico that the agreement has reinforced has helped push developments in the right direction.

Second, the lock-in effect has been very important. We've talked about it in relation to the peso crisis, but it will become particularly important in the future in light of the increasing democratization of the Mexican political process. There are going to be more debates in Mexico, just as we're seeing here today in the United

States, about the direction of trade policy. NAFTA obligations will raise the cost of any policy reversals that would impose new protection against the United States and other imports into the Mexican economy, and, thus, will protect both United States and Mexican trading interests. I think that aspect of the lock-in has not been raised today and deserves some attention.

Third, the NAFTA typifies the U.S. pursuit of an asymmetrical trade strategy. As has been mentioned by a number of speakers, our markets are generally open. What we have been doing in the NAFTA, and what we propose to do in future trade agreements, is basically get countries to agree to lower their barriers in return for an "insurance policy" that we will maintain the good access to our market for their goods that they already have. It would seem to be a no-brainer that this is a good deal for the United States because almost all of the reforms are being taken by our trading partners.

If we don't engage in these talks, our market will still be open. We're obligated to keep it open under the WTO and other agreements, and, therefore, we're not losing much by entering these agreements and trying to knock down more trade barriers.

There are a number of other strategic points raised in my statement, but let me turn to the important issue of employment and labor and environment. As has been said by a number of witnesses, neither NAFTA nor any trade agreement should be judged by its contribution to achieving full employment. The total level of jobs in the U.S. economy is basically determined by macroeconomic and monetary policy, and the current period presents dramatic evidence of this fact. We are essentially at full employment, and this positive development has occurred despite a large and growing trade deficit, including an adverse shift in our trade balance with our NAFTA partners. So any simplistic relation between the U.S. trade deficit and U.S. job losses just doesn't make any sense.

Trade, rather, helps to determine the quality of jobs in the economy. It shifts output from sectors where we are less productive into those where we are more productive, and those more productive sectors create more high-paying jobs. And, indeed, the export boom of the past decade has stopped the decline of high-wage manufacturing jobs in our economy. Now, of course, progress costs jobs, but progress also creates more and better paying jobs, and we need to keep that in mind.

Finally, on the labor and environmental points, I actually have some sympathy concerning comments by Mr. Levin. Labor and environmental issues should be an integral part of our overall bilateral relations and should be pursued in a variety of forums. WTO agreements already cover several important problems in these areas. But we also need to recognize that trade agreements are not the only channel for achieving our goals, and WTO members have explicitly rejected the further negotiation of labor issues in the WTO at the Singapore ministerial last December.

Critics of NAFTA are actually wrong in saying we have a great deal of leverage in forcing countries to adopt higher labor standards through our trade agreements. Because our market is open, we basically have limited leverage to tell them that, if they don't adopt higher standards, we will close our market, because we are already committed to keeping out market open.

What we could have done is argued that, if countries cooperate with us in a wide variety of forums to improve labor standards and environmental conditions, that we would work with them through technical cooperation and other means to support their economic development. Instead, but the trade stick has actually been detrimental to the interests of the proponents of improved labor and environmental standards because it's scared countries away from the negotiating table. I think that's a very important point that has been left out of the NAFTA debate that deserves attention.

I'm sorry I've exceeded my time, and I thank you again for the opportunity to present my views.

[The prepared statement follows:]

Joint Statement of C. Fred Bergsten, Director, and Jeffrey J. Schott, Senior Fellow, Institute for International Economics*

Any evaluation of NAFTA to date must analyze the detailed trade and investment flows among the three member countries since the agreement was implemented at the outset of 1994. We will do so in this statement. We will also offer our evaluation of the Administration's official report on the agreement.

Before proceeding, however, we wish to emphasize several broad strategic considerations that must be accorded substantial weight in assessing the results to date. NAFTA must be judged against a series of fundamental US policy goals rather than simply on a narrow assessment of changes in trade and investment, and their effects on the American economy. Indeed, we believe that NAFTA shall be evaluated primarily on these broader considerations. We feel compelled to emphasize these factors in our own evaluation because the Administration's report, like its overall trade policy, gives short shrift to these strategic perspectives.

Even before addressing the strategic impact of NAFTA, however, three caveats must be stressed. First, it is far too early to reach a considered judgment on the success or failure of the arrangement. Like any trade agreement, NAFTA aims to improve the economic structures of the participating countries. It is not a cyclical or short-term tool for creating jobs or anything else. It will be years, if not decades, before anyone can objectively reach a comprehensive judgment on the impact of NAFTA.

Our assessment covers a longer period than the 3½ years since the agreement was formally launched. The reason is that much of Mexico's liberalization and deregulation in the late 1980s and early 1990s was undertaken at least partly to enable it to enter into NAFTA negotiations. From the time that Mexico proposed the idea in 1990, the United States made clear that Mexico would have to greatly improve its trade, investment and related policies before an agreement could be concluded. Hence NAFTA deserves credit for a substantial part of the Mexican economic reforms implemented since 1990 as well as the substantial further reduction of Mexican tariffs, and other trade and investment barriers, since NAFTA formally took effect.

The second caveat is that NAFTA necessarily has a very small impact on the American economy. The addition of Mexico to the Canada-United States Free Trade Agreement essentially expanded our free trade area by 4 percent—the ratio of Mexico's GDP to our own. Any impact is therefore inherently modest. For example, the US economy has created 7.5 million jobs since NAFTA went into effect, swamping any conceivable "NAFTA effect."[1] Neither judgments about the American economy nor about future American trade policy can be driven very far by NAFTA.

The third caveat is that much of the NAFTA debate, certainly during the Congressional approval process and even today, addresses the wrong questions. Neither NAFTA nor any trade agreement should be judged on its contribution to achieving full employment in the United States. The total level of jobs in our economy is basically determined by macroeconomic and monetary policy. The current period presents dramatic evidence of this conclusion: we are at "full employment," and the unemployment rate has dropped far below the level that most economists had felt was safe from the standpoint of price stability. This positive employment situation has developed despite a large and growing trade deficit, including an "adverse" shift in our trade balance with our NAFTA partners.

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*The views expressed in this statement are those of the authors and do not necessarily reflect the views of individual members of the Institute's Board of Directors or Advisory Committee.

[1] Data cover the period January 1994 through June 1997.

Trade rather helps to determine the *quality* of jobs in the economy. It shifts output from sectors where we are least productive into those where we are most productive. Hence it increases wage levels and standards of living; export jobs pay about 15 percent more than the national average. Indeed, the export boom of the past decade has stopped the decline of high-wage manufacturing jobs in our economy and, if it continues at the recent pace, could even restore the level of manufacturing employment to its previous high over the next decade or so. Since our major national economic problem has been a long-term stagnation of per capita incomes and wage levels, increased trade—including via agreements like NAFTA—clearly contributes positively to our national economic interest.

NAFTA'S STRATEGIC OBJECTIVES: AN EARLY APPRAISAL

With those very important caveats in mind, let us begin the evaluation itself by analyzing the record of NAFTA to date in achieving seven of its central strategic objectives:

1. A key American strategic goal was to promote pluralism and democratization in Mexico, on the (correct) view that this would enhance both political and economic stability in Mexico over the long run. There is still a long way to go, and obvious problems remain, but the recent election suggests that there has been solid progress on this front. NAFTA obviously cannot take credit for this evolution but the economic opening that the agreement has reinforced has helped push developments in the right direction.

2. A central Mexican goal, strongly shared by the United States, was to lock in the de la Madrid-Salinas reforms against the risk that future Mexican governments would undo them. Such policy renewals have occurred frequently in Mexican history and could resurface in the future in light of the increasing democratization of the Mexican political system. NAFTA obligations raise the cost of such a policy backlash and thus protect both US and Mexican trading interests.

This key purpose of NAFTA was unfortunately put to a very early test with the peso crisis less than one year into the agreement. But NAFTA and the Mexican reforms clearly held: unlike virtually all previous cases, such as the debt crisis of 1982, the Mexican government responded with an appropriate package of macroeconomic and further structural reforms rather than by rolling back its past liberalization. Open access to the US market, reinforced by NAFTA, helped prevent an even more drastic recession and thus still greater pressure to reverse the reform program.

At the same time, Mexico should be faulted for paying too little attention to the macroeconomic and monetary implications of its trade liberalization. To be sure, NAFTA-related liberalization was only a minor factor in bringing on the peso crisis, and the United States responded properly by helping finance a constructive Mexican policy response, but preemptive action would have been far better and should have resulted from ongoing consultations between the US Treasury and its Mexican counterparts.

The results have been notable, although more progress needs to be made in restoring the real income levels of the poorer segments of Mexican society. Mexico already achieved 5 percent growth already in 1996, in stark contrast to the five-year recession that followed its 1982 crisis. Since mid-1996, the Mexican recovery has been led by a revival of domestic demand, primarily in the labor intensive construction sector. United States exports to Mexico exceeded their 1994 level by 11.8 percent in 1996. This stands in stark contrast to the 50 percent cut in US exports from their 1981 level in the aftermath of the Mexican debt crisis of 1982–3 when our sales did not recover to their pre-crisis levels until 1988. NAFTA thus passed its first major test with flying colors.

3. Another central purpose of NAFTA was to provide both Mexico and the United States with insurance that their market access would not be curtailed in the partner country. As noted, the United States has already cashed in on that policy. Mexico did raise its duties against some other countries in response to the peso crisis but could not do so against the United States because of NAFTA; the United States in fact *increased* its share of the Mexican import market from 69 percent to 76 percent as a result of the agreement.

4. A related Mexican goal was to convince multilateral firms via NAFTA that its liberalized regime would be sustained and that Mexico would thus be an attractive site for foreign direct investment (FDI). This objective too has been realized: flows of FDI into Mexico from all countries rose from an annual average of $3 billion in 1988–90 and $4.5 billion in 1991–93 to $9.4 billion during 1994–96 (despite the peso crisis). This relatively stable source of foreign funding for Mexico of course also

serves US interests by promoting economic growth and creating a more sizable market for US products.

5. NAFTA must also be seen in the broader context of overall US trade policy. The startup of NAFTA negotiations in 1991 gave renewed impetus to the Uruguay Round in the GATT, which had stalled in 1990 because of US-Europe differences over agriculture, by reminding the Europeans that the United States could pursue alternative trade strategies. Congressional passage of NAFTA in November 1993 enabled President Clinton, only two days later, to launch a new era in Asia-Pacific economic cooperation via the APEC summit in Seattle; the two events together played a critical role in completing the "trade triple play" of 1993 by bringing the Uruguay Round to a successful conclusion in the following month. Moreover, both Presidents Bush and Clinton used NAFTA to launch their Enterprise for the Americas Initiative/Free Trade Area of the Americas that promises to broaden trade liberalization to the entire hemisphere.

6. NAFTA also represents an initial test of the US strategy of asymmetrical trade liberalization with important developing countries. Since the United States has already eliminated most of its own barriers, the only way it can achieve truly fair trade and a level playing field with the large, rapidly growing nations of Asia and Latin America that still have high barriers is by negotiating free trade pacts. The key question is whether the other countries will agree to such arrangements and NAFTA represented a first step down this path.

Here too, NAFTA has worked well. Mexico will eliminate tariffs that averaged about 10 percent on US goods compared with US tariffs that averaged about 2 percent on Mexican products. The NAFTA ratio is thus about 5 to 1 in our favor and, at least to date, full implementation (7 percentage points of Mexican tariff cuts, 1.4 percentage points for the United States) is proceeding on schedule. Even more important, NAFTA has provided a model for the proposed Western Hemisphere and APEC free trade arrangements where the ratios are even higher and where free trade is thus so clearly in the US interest.

7. Finally, the United States *sought* to increase its imports from Mexico as a result of NAFTA. In particular, we wanted to shift imports from other countries to Mexico—since our imports from Mexico include more US content and because Mexico spends much more of its export earnings on imports from the United States than do, say, the East Asian countries. That shift is occurring and helps, not hurts, the American economy.

During its first 3½ years of existence, NAFTA has thus already fulfilled its most fundamental strategic goals to a considerable extent. On these criteria, it must be viewed as a major success for the United States (and for Mexico and Canada). We now turn to a more detailed examination of the trade and investment flows that have occurred, framed in terms of an appraisal of the official evaluation offered to the Committee today by Ambassador Barshevsky and Secretary Daley.

Evaluating the Administration's Evaluation

NAFTA assessments often confuse what has happened since NAFTA entered into force with what has happened because of the implementation of NAFTA-mandated reforms. Doing so attributes to the trade pact many developments that essentially are unrelated to the pact and would have occurred anyway. To its credit, the Administration report on NAFTA tries to parse out the effects of the Mexican peso depreciation from the effects of the NAFTA trade reforms to estimate what difference the NAFTA has made for the North American economies.

Overall, the Administration reports that NAFTA has had a very modest impact on the US economy. This conclusion is markedly different from its rhetoric during the NAFTA implementation debate in 1993 but unremarkably similar to most economic projections that forecast modest trade gains and insignificant employment effects. The following subsections review the key findings on trade and employment effects, as well as the operation of the side pacts. We also include an evaluation of the dispute settlement provisions of the NAFTA, which the Administration report ignored despite their surprisingly strong track record.

Trade

The report accurately records the impressive growth in US bilateral trade with Mexico and Canada since NAFTA entered into force. Total trade with our NAFTA partners increased by 43.3 percent since 1993 (the year before NAFTA took effect), significantly faster than US trade with the rest of the world (32.4 percent) over the period 1993–1996. US exports to Mexico and Canada increased by 37 percent and 33 percent, and US imports from our NAFTA partners grew by 83 percent and 41 percent, respectively. *This growth continues a trend that preceded the NAFTA trade* *reforms*. During the three-year period prior to NAFTA, US trade with Mexico and Canada also grew much faster than our trade with other countries (25.5 percent versus 14.9 percent).[2]

What this means is that the economic integration of the North American economies had been advancing long before the NAFTA, spurred by the new trade and investment opportunities created by the domestic economic reforms in Mexico since the mid-1980s *and* the inflation and budget-cutting initiatives in the United States and Canada. The NAFTA reinforced this trend, but regional trade and investment would have continued to expand even if NAFTA had never been broached.

How much of this trade growth is due to trade liberalization mandated by NAFTA obligations? The report acknowledges the difficulty of isolating the NAFTA effect, particularly in light of the 1995 peso crisis and sharp Mexican recession, the concurrent implementation of tariff cuts negotiated in the Uruguay Round, and the robust growth of the US economy over the past few years. It states that the effects of the peso depreciation and the relatively faster growth of the US economy were much more important than NAFTA trade reforms in explaining the increase in post-NAFTA trade, and references other studies that suggest that NAFTA reforms by themselves actually increased US net exports to Mexico since 1994.[3] Those results are then used to calculate net US job gains generated by NAFTA-related reforms (see below).

What the report also could have noted is that, even before the NAFTA entered into force, the overvalued peso further complicated the analysis by dampening Mexican export growth to the United States and promoting larger US exports to Mexico than otherwise would have occurred. Hence, the shift in the US bilateral trade balance with Mexico since NAFTA took effect would have been substantially smaller, absent the peso misalignment that emerged well before the peso crisis of December 1994.[4]

INVESTMENT

The report provides a straightforward and accurate assessment of the impact of NAFTA on regional investment and the minimal effect US foreign direct investment (FDI) in Mexico has had on the US economy. It demonstrates persuasively that the alarmist fears of Ross Perot and others have not materialized, i.e. there has been no "giant sucking sound" of US plants and jobs heading south of the border.

To be sure, NAFTA has made it easier to invest in Mexico by cutting red-tape and removing key ownership restrictions, particularly in the financial services sector. In fact, Mexico accelerated the implementation of its NAFTA obligations to liberalize investment in the banking sector as part of its response to the peso crisis. However, these reforms will only attract foreign investors if those companies believe that the climate for economic growth is favorable, i.e. that domestic economic policy is sound and commands political support.

As noted earlier, Mexico's reforms have contributed to an increasingly strong inflow of FDI in Mexico. Since NAFTA entered into force, the US share of new FDI in Mexico[5] (new investment and reinvested earnings) has been slightly more than 50 percent (down from 60 percent historically); these funds represent about one-half of one percent of the total investment in plant and equipment in the United States in 1996.

EMPLOYMENT

The report provides a *half-step* back from the Administration's persistent and exaggerated claims that the NAFTA would be an engine of job creation. Nonetheless, the authors seem obliged to link NAFTA reforms to net gains in US employment and thus rely on commissioned studies from DRI (that calculated that US net exports were $7 billion higher in 1996 than otherwise would have occurred due to

[2] This earlier period (1990–1993) covered the initial implementation of the US-Canada Free Trade Agreement, which led to faster growth in US-Canada trade despite the sharp recession in Canada in the early 1990s.

[3] Of course, if one focused primarily on the impact of the NAFTA tariff cuts, the more sizable cuts by Mexico would lead to a positive trade balance effect for the United States.

[4] Our colleague John Williamson raised concerns about the peso overvaluation in testimony before the House Committee on Small Business on May 20, 1993. Hufbauer and Schott also suggested that Mexico would have to take steps to avoid the further real appreciation of the peso in their widely-cited study, *NAFTA: An Assessment*, published by the Institute for International Economics in 1993.

[5] New FDI comprises new investment plus reinvested earnings of US companies in Mexico.

NAFTA) to estimate export-related US job gains of 90,000 or more. This is small potatoes in an economy that counts a labor force of 136 million people.

Scant attention is given to job displacements due to import growth: the report correctly states that "imports do not necessarily displace U.S. production" and that the workers certified under the NAFTA–TAA program "overstate the number of workers displaced because of trade with Canada and Mexico, and, in any event, do not provide estimates of job losses due to NAFTA." This conclusion is a bit cavalier. Clearly, the program does not require a clear link to NAFTA reforms and reportedly has certified workers displaced for reasons other than increased trade and investment with our NAFTA partners. Equally obvious, however, is that not all workers eligible for the program have taken advantage of it, so the number of certifications likely understates the number of affected workers.

However, any way one slants the numbers, the problem of job displacement due to NAFTA is very small relative to the total number of jobs displaced each year in the US economy (about 1.5 million), which as noted above have been more than offset by the substantial US job creation in recent years. Labor adjustment *is* an important issue for US policy, but it is not primarily a NAFTA or trade-related problem.

DISPUTE SETTLEMENT

Inexplicably, the Administration report makes virtually no mention of the results to date of the NAFTA dispute settlement provisions, particularly chapter 19 reviews of final antidumping and countervailing duty decisions.[6] Through April 1997, NAFTA panels have been convened in 26 cases, of which the United States was the plaintiff in 13 and the defendant in 10 cases. In general, the disputes have been handled expeditiously and objectively. Panelists have not displayed national bias nor have they "rubber stamped" decisions by national agencies.

The NAFTA system has worked well for the United States. Five of the eight cases that resulted in a panel finding (5 others were withdrawn during the panel process) led to the reappraisal of the Mexican or Canadian antidumping action against US firms by the national agency.

LABOR AND ENVIRONMENT SIDE AGREEMENTS TO NAFTA

The Administration report provides a factual account of the activities that have been undertaken pursuant to the North American Agreement on Environmental Cooperation (NAAEC) and the North American Agreement on Labor Cooperation (NAALC). The side agreements have three specific objectives. First, the pacts monitor implementation of *national* laws and regulations in each country pertaining to labor and the environment, performing a watch-dog role to alert countries about abuses of labor and environmental practices within each country. Second, the pacts provide resources for joint initiatives to promote stronger labor and environmental practices. Third, the pacts establish a forum for consultations and dispute resolution in cases where domestic enforcement is inadequate.

Despite a slow and cumbersome start, the pacts have recently begun to show some results. Both side agreements have focused their efforts primarily on oversight of national laws and practices, sponsoring comparative studies, training seminars, and regional initiatives to promote cooperative labor and environmental policies. These efforts seem small in relation to the magnitude of the labor and environmental problems confronting the three countries, but they have directed additional attention and resources to these problems that would have been lacking in the absence of the side pacts.

To be sure, the dispute settlement provisions were the driving force behind the US initiative to secure the agreements, which sought additional trade provisions to address perceived labor and environmental problems in Mexico. In this area, the record to date has been mixed.

Disputes concerning unfair labor practices (primarily denial of right of association) have benefited from the glare of publicity afforded by the pacts. Eight cases have been filed with the NAALC secretariat—seven by the United States and one by Mexico. Two of the eight resulted in changes in the contested labor practices, two are the subject of ministerial consultations, three were terminated, and one recent case is under review. Trade sanctions have not been a factor in any of the cases.

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[6] The general dispute settlement provisions of NAFTA chapter 20 and the innovative procedures of the chapter ll regarding investment disputes have been used much more sparingly than chapter 19.

In the environmental area, none of the eleven cases filed as of September 1997 has prompted changes in national practices (although some of the charges were determined to be unfounded). Five cases were terminated for various reasons, five are under review by the NAAEC secretariat, and one case has advanced to the stage of compiling a factual record of the dispute (which presages the convening of a dispute panel). The process is deliberately convoluted. Mexico and Canada staunchly resisted the incorporation of dispute provisions in the side pacts and only accepted a compromise process that was long on consultation and short on adjudication. Interestingly, more cases have been filed regarding US and Canadian practices than Mexican practices.

In sum, have these pacts been worth the effort? The answer is clearly "yes": cooperation among the three countries on labor and environmental matters is greater than would have been likely in the absence of the joint initiatives and dispute panels established by the pact.

Could the United States have negotiated more detailed obligations regarding labor and environmental practices and enforcement procedures? and should we try to do more in these areas in future trade negotiations? These questions lie at the heart of the current debate over fast track authority, and they deserve a direct answer.

Labor and environmental issues should be an integral part of our bilateral relations, and should be pursued in a variety of fora. WTO agreements already cover several important problems in these areas but WTO members explicitly rejected the further negotiation of labor issues at the Singapore Ministerial meeting of December 1996. Fewtiate formal WTO consultations on labor standards, preferring instead to handle those matters in the International Labor Organization. In August 1997, our Latin American neighbors reiterated their opposition to the inclusion of labor issues in trade pacts, including the prospective Free Trade Area of the Americas. The reason for the almost universal reluctance to address labor issues in trade talks is straightforward: other countries recognize that the main reason US labor and environmental groups want international obligations in their areas blended into trade pacts is to take advantage of the trade sanctions available under the WTO's dispute settlement process, and they thus regard the US policy as a transparent threat of new US protectionism.

As a practical matter, the United States has little leverage to convince our trading partners to incorporate enforceable obligations on labor and environmental issues in new trade pacts. We basically want other countries to accept US norms or standards, so are not suggesting changes in US policies that would benefit our trading partners (unless we abstained from using trade measures to coerce foreign compliance with what we regard as appropriate policies and practices). But, as we noted earlier, our market is already generally open to their products, so the only threat we can make is to reduce that access—that is, impose new protectionist measures.

Whether they realize it or not, when US policymakers insist that new trade pacts include enforceable obligations on labor and environmental issues, they are effectively advocating either the introduction of new US protectionism or the withdrawal from new trade negotiations. For the myriad reasons cited at the start of this statement, that would be a bad result for the United States.

Concluding Remarks

The NAFTA today is still a work in progress, but it has already produced tangible gains for the United States. Most importantly, it has helped support the crucial economic and political reforms in Mexico that have strengthened democracy and stability in our southern neighbor. The United States benefits when our neighbors prosper and deepen their democratic institutions. Second, the NAFTA has lowered barriers to an important and growing market of 90 million people, creating new trade opportunities for US exporting firms that on average pay wages about 15 percent higher than paid by non-exporting US manufacturing firms. In that regard, NAFTA clearly contributes to the improvement of our long-term problem of stagnant per capita incomes and wage levels. To be sure, US imports from Mexico have increased sharply, but this growth derived far more from the strong performance of the US economy and the peso depreciation than from the minimal US trade reforms required by NAFTA.

In sum, NAFTA has been a good deal for the United States, promoting crucial US economic and geopolitical objectives. We should build on that success and reassert our leadership role in the world trading system by launching new trade negotiations both regionally and multilaterally. To do so requires new fast track authority, and we urge the Congress and the Administration to work closely together to provide new negotiating authority as soon as possible.

Chairman CRANE. Thank you, Mr. Schott.

Ms. Wilson, I am a former history professor, and one of the things I've always reflected on is that you have retained a historic position that your party embraced and ours didn't, and that was the advancement of free trade. And when the McKinley tariff was passed, it brought on the panic of 1993, and, unfortunately, President Cleveland took the rap for that, but it was directly related to that McKinley tariff. And so Cleveland immediately worked to reduce it and restore a sound economy, but he said at that time, When you put those walls around your country, you inflict the greatest injury on that man who earns his daily bread with the sweat of his brow. And that is profoundly correct, and the Smoots and the Hawleys on our side of the aisle not only guaranteed we went into a depression in the thirties, but that it went worldwide. And so we admire your contribution to working together with Republicans because these are not Republican and not Democrat issues; they're American issues.

And one of the problems, though, is there have been some polls that indicate the overwhelming majority—well, not overwhelming, but a majority—of the American people are not enthused about advancing free trade, and it's in part because of ignorance. I am proposing to you, because I know you're doing your share, to get the administration and the business community together to try and educate and advance these ideas.

Have you been aware of any concerted cooperation in that regard to educating the public on the importance of it?

Ms. WILSON. Well, first, Mr. Chairman, if you are implying that it took a while for Republicans historically to catch onto the benefits of——

Chairman CRANE. Until World War II.

Ms. WILSON [continuing]. Free trade, I would associate myself with that thought. One could say they were latecomers on that——

Chairman CRANE. Yes.

Ms. WILSON [continuing]. And that the Democratic Party's historical position, including every Democratic President since FDR and, as you said, even before, has been that increased trade and opening markets were in the benefit of ordinary working Americans, which is exactly our own position.

I have been working in the area of educating Americans about issues like trade and similar international issues for quite a while, and I think in a way we're making progress. I was very encouraged yesterday by the Wall Street Journal article about how more and more manufacturing workers are coming to realize where their products are going; that they're going overseas.

With regard to polling, there's obviously a lot of polling being done at the moment on American attitudes toward trade. Mark Pen did a poll for the Democratic Leadership Council this summer in which we oversampled Democrats. It was a wide-ranging poll on a number of issues, but one of the things we're very encouraged about was that when you asked Americans if they were in favor of free trade, 62 percent just said yes. If you asked them if they were in favor of fair trade, 82 percent of them said yes. Now they did express some concerns, which is why we think it was a fair and balanced poll, about whether the benefits of trade were going as much to them as they were to large companies, and there's clearly work that we all have to do in that area. But I think it's interesting that, since they had those concerns, they still supported trade expansion. The way we summarize it is that we think Americans are very much supportive in theory of continuing of our free trade policies; in practice, they, like many Members of Congress, have a lot of specific issues to raise about how it works.

Chairman CRANE. Well, thank you very much, Ms. Wilson. I look forward to working with you on a continuing basis.

I'd like to ask a quick question of Mr. King, and that is, How do you respond to allegations that NAFTA protects the interest of multinational corporations, to the exclusion of everyone else, and what's been the impact of the agreement on job creation in your industry and on small business suppliers?

Mr. GEORGE KING. Well, let me first address the issue of the job creation in our industry. When we first started addressing this issue back in 1992–93, when we were discussing NAFTA—or at the beginning—we came up with the conclusion that NAFTA for the Eastman Kodak Co., and I can talk very specifically about that, was going to create somewhere in the neighborhood of around a thousand jobs. And the reason we came to that conclusion was because, if we could get the duty reductions going from Mexico into the United States—and by that time the film, for instance, color film, has paid an import duty of about 15 percent; today it pays zero—and if we could have that kind of a reduction, we would then be able to take some very high-value manufacturing processes that were taking place in Mexico and transfer them back into Rochester, New York.

The reason we wanted to do that is because in the early sixties and the seventies many multinational companies put manufacturing operations in Mexico, not only to serve and have access to the Mexican marketplace, but also to have access to the Latin American marketplace. That was to take advantage of the LAFTA, Latin America Free Trade Association, which was begun in the sixties and created a free trade agreement with 10 other Latin American countries. However, to do that, because of the low volumes that the Latin American area has, we did not necessarily have the most efficient manufacturing processes. We did have a cost for getting that market access in those days.

So with LAFTA, we were able to take a less-than-satisfactory manufacturing process, send it back to Rochester, and what that meant was that we were able to reexport those things that were being manufactured in Rochester back to Mexico, but also back to all the Latin American countries. And we sometimes forget the impact that Mexico has on trade, not only with Mexico, but also from trade with other Latin American countries, and this was particularly the case in Kodak. I think that was very beneficial for the United States in that sense.

Chairman CRANE. Well, panelists, I had questions in mind that I'm going to discuss later with Mr. Katz and Mr. Schott, because that was second bells, and we're starting our Mickey Mouse routine over on the floor with a motion to adjourn. So, I'm going to have to recess at this point, subject to call of the Chair. We will resume the hearing, but I won't make you folks just sit around and wait indefinitely, and I'll contact, as a followup, Mr. Schott and Mr. Katz, as I'm sure Mr. Neal and Mr. English would like to do, too.

Mr. NEAL. Mr. Chairman.

Chairman CRANE. Yes.

Mr. NEAL. Would you yield for 1 minute?

Chairman CRANE. Certainly.

Mr. NEAL. I recall when your side was in the minority you perfected those tactics. [Laughter.]

Chairman CRANE. I don't recall those motions to adjourn or I would have voted for them. [Laughter.]

And so, with that, the Subcommittee stands in recess subject to call of the Chair. Thank you all.

[Recess.]

Chairman CRANE. The Subcommittee will reconvene, and if everyone will please be seated, we would now like to welcome before the Subcommittee our next panel of witnesses, and we'll begin with John Sweeney, president of the AFL–CIO; Larry Liebenow, president and chief executive officer of Quaker Fabric Corp.; Mark Van Putten, president and chief executive officer of the National Wildlife Federation; and Mustafa Mohatarem, chief economist for General Motors Corp.

And I would like, panelists, if you would yield to Mr. Sweeney to go first, and then we will question him and let him be excused, because I think he's got a conflict and has to make a press conference. And so we'll proceed first with you, Mr. Sweeney, and then you can be excused.

STATEMENT OF JOHN J. SWEENEY, PRESIDENT, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS; ACCOMPANIED BY THEA LEE, ASSISTANT DIRECTOR OF PUBLIC POLICY, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATION (AFL–CIO)

Mr. JOHN SWEENEY. Thank you very much, Mr. Chairman. I appreciate that.

Members of the Subcommittee, the AFL–CIO appreciates this opportunity to present its views on the impact of the North American Free Trade Agreement. I'd like to take this opportunity to offer both our assessment of NAFTA's impact on America's working families and to discuss the lessons that can be learned from our experience with NAFTA, as this Congress and the Nation consider the wisdom of granting the President additional fast track negotiating authority.

Let me say, first of all, the labor movement considers the fast track legislation to be of crucial significance to working people both here and abroad. We sincerely believe this is a historic moment when the current generation of leaders in this country have the opportunity and the responsibility to reshape America's role in the global economy, laying the groundwork for global trade and investment to flow well into the 21st century.

Trade agreements we put in place now will determine the relationship between global labor and capital, and the fortunes of working people, who are the backbone of our democracy and our economy, for years, if not decades to come. We must ensure that the benefits of global growth are broadly shared by working people, family farmers, small businesses, and consumers. The alternative is to continue with business as usual and to replicate failed trade policies of the past that protect intellectual property rights, but do nothing to protect ordinary citizens. To write more rules into agreements to advance corporate interests at the expense of everyone else is simply unacceptable.

We are prepared to mount a vigorous, nationwide, grassroots campaign to oppose any fast track legislation that does not guarantee enforceable environmental standards and workers and human rights in the core of any new trade agreements. It is important to note that the proposal put forth by Chairman Archer to include labor and environmental provisions as negotiating objectives in fast track authority only if they are directly related to trade is completely unacceptable. This proposal, incredibly, would be a big backward step from the language included in the inadequate 1988 and 1991 fast track legislation, which listed workers' rights among the negotiating objectives, but did not limit their scope.

Earlier versions of fast track legislation must be strengthened, not weakened. We ask the business community to stand with us and support these provisions to ensure that workers and the environment also benefit as the global economy gathers steam.

International rules establishing minimum standards protecting workers and the environment will prevent the good corporate citizens in the global economy from being undermined by those with few scruples and no shame. The question, of course, is not whether we will be integrated into the global economy, but how. We, as a nation, stand at a historic crossroads. The business community may in the short run be able to outspend and outshout critics of the current model of globalization, but that victory would be short lived and would come at a high price. A much better option would be for all of us to work together to write the trade rules of the future and recognize that trade policies of the past have placed a disproportionate burden on working men and women, have taken a heavy toll on the environment, and have had unintended side effects in the areas of food safety, highway safety, and the transport of illegal drugs.

Until we recognize the problems we have had with past trade policies, we will repeat our mistakes and deepen our difficulties. The administration's July report to the Congress was incomplete and misleading. We need a thorough understanding and analysis of the problems with NAFTA, and we need to take steps to fix those problems before we rush to extend NAFTA to Chile, South America, the Caribbean Basin, Asia, Africa, or anywhere else.

NAFTA fulfilled virtually none of the promises made on its behalf. It was to lead to a United States trade surplus with Mexico, thereby creating hundreds of thousands of United States jobs. The reverse occurred. It was to make Mexico rich, and a rich Mexico was to easily solve all its promises with regard to environment, drugs, democracy, and labor rights. Instead, Mexico suffered one of the worst economic crises in its history, and all of the above problems have worsened, not improved.

Even as recovery begins, it is clear that only the export sector is growing, leaving most Mexicans economically vulnerable and in deep debt. The NAFTA institutions designed to help those directly harmed by the agreement and to smooth transition have been a major disappointment. NAFTA also affected the balance of power between employers and workers, as well as the leverage of working people to bargain for decent pay and working conditions, and to form unions when they judge that is in their best interest.

Jeansmaker, Guess, Inc., provides a startling example of global competitive pressures at work. Up until 3 years ago, Guess produced 97 percent of its clothing in Los Angeles, employing several thousand workers. Now only 35 percent of Guess' production remains in Los Angeles; the rest has moved to Mexico, Peru, Chile, and some Asian locations.

Maurice Marciano, the chief executive of Guess, told the Wall Street Journal that the production shifts were designed to help companies stay competitive and lower costs. He admitted, however, that the Labor Department's aggressive enforcement of overtime and minimum wage laws and the workers' attempts to organize a labor union were a factor as well. Mr. Marciano's message is clear: If the U.S. Government takes steps to enforce U.S. labor laws that protect working people from exploitation, he and his company will flee, leaving thousands of workers jobless, countless others afraid to ask too much from their employers, and government agencies wondering whether or not to enforce our laws aggressively.

The current set of trade rules creates a perverse incentive that rewards chief executive officers like Mr. Marciano for moving production overseas while punishing those who stay behind. This situation must be corrected, so U.S. producers are not encouraged to take advantage of workers in other countries who lack basic human rights. Neither should the products of child labor or forced labor enter our market under preferential terms.

These rules inevitably drive U.S. living standards down; yet, the old rules are not inevitable for Americans to participate and prosper in the global economy. Let's slow this process down and get the rules right this time. We need to learn a solid lesson from our experiences under NAFTA, take steps to fix those problems, and then talk about whether it should be expanded to other countries. It is better to have no deal than a bad deal that locks us into a flawed set of policies for decades to come.

The AFL–CIO is open to expanding the trade through mounted bilateral and multilateral agreements, so long as those agreements reflect the legitimate concerns of workers and communities, and not just of business. Past trade agreements have taken care of employers' rights; future trade agreements should protect the people who do the work and the environment that we all share.

Mr. Chairman, we stand ready to work with you and Members of the Subcommittee to structure legislation that will bring shared prosperity to all the workers of our hemisphere and beyond. And I'm sorry that I went beyond my time.

[The prepared statement follows:]

Statement of John J. Sweeney, President, American Federation of Labor and Congress of Industrial Organizations (AFL–CIO)

Mr. Chairman, members of the Subcommittee, the AFL–CIO appreciates this opportunity to present its views on the impact of the North American Free Trade Agreement (NAFTA). I would like to take this opportunity to offer both our assessment of NAFTA's impact on America's working families, and to discuss the lessons that can be learned from our experience with NAFTA as this Congress and the nation consider the wisdom of granting the President additional fast-track negotiating authority.

Let me say, first of all, the labor movement considers the fast-track legislation to be of crucial significance to working people here and abroad. We sincerely believe that this is an historic moment when the United States must exhibit leadership in the global economy, laying the groundwork for bringing the rules governing global trade and investment flows into the 21st century.

We can and we must rewrite those rules, so that the benefits of global growth are broadly shared—by working people, family farmers, small businesses, and consumers. The alternative—to continue with business as usual, to replicate the failed trade policies of the past, to write more rules to protect corporate interests at the expense of everyone else—is simply unacceptable.

Trade agreements we put in place now will shape the relationship between global labor and capital, and the fortunes of working people, who are the backbone of our democracy and our economy, for years—if not decades—to come. Will our citizens live in a world with basic environmental health and safety protections? Will their human rights as contributing members of society be respected? Will our trade agreements protect the living standards of working families? Or will they leave them to chance—and to the downward pressures of an unregulated global marketplace?

Let me be clear: I believe that the economic status of the next generation of average-wage Americans will be determined to a large extent by how our government handles trade questions in the coming months.

We are prepared to mount a vigorous grassroots campaign to oppose any fast-track legislation that does not require enforceable labor and environmental standards right in the core of any new trade agreements. The core internationally recognized labor standards that must be protected under new trade agreements include those already defined under section 502(a)(4) of the Trade Act of 1974, as amended: freedom of association; right to organize and bargain collectively; a minimum age for the employment of children; prohibition on forced labor; and acceptable conditions with respect to minimum wages, hours of work, and occupational safety and health.

The proposal put forth by Chairman Archer to include labor and environmental provisions as negotiating objectives in fast-track authority only if they are "directly related to trade" is completely unacceptable. This proposal, incredibly, would be a big backwards step from the language included in the inadequate 1988 and 1991 fast-track legislation, which listed "worker rights" among the negotiating objectives, but did not limit their scope.

Earlier versions of fast-track legislation must be strengthened, not weakened. The preferential treatment allowed by fast track—a no-amendment vote and a streamlined timetable—should apply only to agreements that contain enforceable provisions on labor and the environment. This would be equivalent to moving back the closed rule until after the President has certified that the labor and environmental provisions are adequate. We have learned from the experiences of the past twenty years that simply listing worker rights along with other negotiating objectives is not sufficient.

Chairman Archer made it clear in his recent press conference that he sees his proposed language as an opportunity to negotiate away "other countries' arbitrary labor standards or environmental regulations" if they inhibit market access. Our aim, in contrast, is to use the leverage of trade agreements to strengthen and enforce internationally recognized labor and environmental standards, not negotiate them away.

We ask the business community to stand with us and support these provisions, to ensure that workers and the environment also benefit as the global economy gathers steam. We believe that principled and conscientious businesses will benefit from international rules establishing minimum standards on labor and the environment. Such rules will prevent the good corporate citizens in the global economy from being undermined by those with few scruples and no shame.

And the truth is that new international protections for labor and the environment may be the price of continuing to play in the global economy. It is increasingly evident that our domestic consensus on trade liberalization has broken down.

We, as a nation, stand at an historic crossroads. The business community may, in the short run, be able to outspend and outshout critics of the current model of globalization. But that victory would be short-lived and would come at a high price. A much better option would be for all of us to work together to write the trade rules of the future and recognize that the trade policies of the past have placed a disproportionate burden on working men and women, have taken a heavy toll on the environment, and have had unintended side effects in the areas of food safety, highway safety, and the transport of illegal drugs.

Until we recognize the problems we have had with past trade policies, we will repeat our mistakes and deepen our difficulties.

The Administration's July report to the Congress, "Study on the Operation and Effects of the North American Free Trade Agreement," was incomplete and misleading. Rather than providing a balanced assessment of NAFTA's positive and negative impacts, the report focused exclusively on positive economic developments since 1993, ignoring or assuming away any of the concrete problems faced by American, Mexican, and Canadian workers, small businesses, family farmers, and all those adversely affected by environmental degradation, problems with food safety, unsafe trucks, and illegal drugs since the implementation of NAFTA in 1994.

The entire Administration report is premised on a single, sweeping, and counterfactual assumption: that the devastating economic crisis experienced by Mexico in 1994 and 1995 never happened. All of the report's "findings" rest on this premise: The United States would have added a small number of net new jobs if the peso crisis had not occurred. American exports to Mexico would have increased by an additional x percent if the peso crisis had not occurred.

The report states, for example, "Had the peso devaluation and resulting dramatic drop in Mexican economic output and domestic consumption not caused the Mexican automotive market to collapse in 1995, it is likely that U.S. exports to Mexico in that year alone would have reached 87,000 units and might have reached well over 100,000 units. . . . "("Study on the Operation and Effects of the North American Free Trade Agreement," p. 48). I don't know about you, but our members can't take that hypothetical assertion to the bank and deposit it.

I, too, wish we lived in a world in which the Mexican economic crisis had not occurred, but we don't. In fact, it is impossible to separate the impact of NAFTA from that of the peso crisis. NAFTA was presented as part of a package deal that was designed to reward President Carlos Salinas's economic reforms—privatization, deregulation, and wage repression, in addition to trade liberalization. That set of reforms—including NAFTA—did culminate in the peso crisis. NAFTA made the crisis worse by encouraging speculative capital inflows. The politics of passing NAFTA in the United States and of electing Salinas's successor also delayed a necessary devaluation, further exacerbating the crisis.

We need a thorough understanding and analysis of the problems with NAFTA, and we need to take steps to fix those problems before we rush to extend NAFTA to Chile, South America, the Caribbean Basin, Asia, Africa, or anywhere else. The NAFTA model has failed in every respect.

NAFTA fulfilled virtually none of the promises made on its behalf. It was to lead to a U.S. trade surplus with Mexico, thereby creating hundreds of thousands of U.S. jobs. The reverse occurred. It was to make Mexico rich, and a rich Mexico was to easily solve all its problems with regard to environment, drugs, democracy, and labor rights. Instead, Mexico suffered one of the worst economic crises in its history, and all of the above problems have worsened, not improved. Even as recovery begins, it is clear that only the export sector is growing, leaving most Mexicans economically vulnerable and in deep debt.

The NAFTA institutions designed to help those directly harmed by the agreement and to smooth transitions have been a major disappointment.

NAFTA also affected the balance of power between employers and workers, as well as the leverage of working people to bargain for decent pay and working conditions and to form unions when they judge that it is in their interest. This shift in the balance of bargaining power affects the millions of workers who have kept their jobs as well as the hundreds of thousands who have been directly displaced by NAFTA.

Jeans maker Guess Inc. provides a startling example of global competitive pressures at work. Up until three years ago, Guess produced 97% of its clothing in Los Angeles, employing several thousand workers. Now, only 35% of Guess's production remains in Los Angeles; the rest has moved to Mexico, Peru, Chile, and some Asian locations.

Maurice Marciano, the chairman and chief executive of Guess, told the Wall Street Journal (January 14, 1997) that the production shifts were designed to help the company "stay competitive" and "lower costs." He admitted, however, that the workers' attempts to organize a labor union, as well as the Labor Department's aggressive enforcement of overtime and minimum wage laws were "a factor as well." Marciano also claimed that Guess competitors are moving business to Mexico.

Mr. Marciano's message is clear. If the U.S. government takes steps to enforce U.S. labor laws, and if American workers exercise their legal right to form a union, he and his company will flee, leaving thousands of workers jobless, countless others afraid to ask too much from their employers, and government agencies wondering whether or not to enforce our laws aggressively.

The current set of trade rules creates a perverse incentive that rewards CEOs like Mr. Marciano for moving production overseas, while punishing those who stay behind. This situation must be corrected, so U.S. producers are not encouraged to take advantage of workers in other countries who lack the basic human rights to form unions and bargain collectively that we fought for in this country and that all workers deserve. Neither should the products of child labor or forced labor enter our market under preferential terms.

Let's slow this process down, and get the rules right this time. We need to learn a solid lesson from our experiences under NAFTA, take steps to fix those problems, and then talk about whether it should be expanded to other countries. It is better to have no deal than a bad deal that locks us into a flawed set of policies for decades to come.

The AFL–CIO is open to expanding trade through bilateral or multilateral agreements, so long as those agreements reflect the legitimate concerns of workers and communities, and not just those of business. Past trade agreements have taken care of employers' rights. Future trade agreements should protect the people who do the work and the environment we all share. Mr. Chairman, we stand ready to work with you and members of the Subcommittee to structure legislation that will bring shared prosperity to all the workers of our hemisphere and beyond.

Chairman CRANE. That's quite all right, Mr. Sweeney. We don't want to delay you in departing.

But let me just quickly ask you, on the question of the environmental sidebar agreements with Mexico, when they came into NAFTA, why have a majority of the dispute settlement cases since that agreement on the environmental side agreement been filed against the United States and Canada instead of Mexico?

Mr. JOHN SWEENEY. I thought that that was the process in terms of the enforcement of the agreement.

Chairman CRANE. Well, I mean the agreement was, and in theory the rationale behind it was, that the violations were going to be south of the border, and we wanted the environmental cleanup there. But why have, as I say, the majority of these cases been filed against us and Canada rather than Mexico?

Mr. JOHN SWEENEY. I believe the complaints have also been filed against Mexico.

Chairman CRANE. Well, they have, but a majority against us and against Canada. Have you any idea?

Mr. JOHN SWEENEY. No. I'd have to really get more information on that.

Chairman CRANE. Well, the other question is: Has NAFTA made goods produced by your members more competitive in the Mexican market against imports coming in there from Japan and Germany?

Mr. JOHN SWEENEY. I'm sorry, I missed the first——

Chairman CRANE. Has NAFTA made our goods more competitive in Mexico in contrast to goods coming into Mexico from Japan and Germany?

Mr. JOHN SWEENEY. I believe that they have been very competitive.

Chairman CRANE. Our goods?

Mr. JOHN SWEENEY. Yes.

Chairman CRANE. And, with that, I'll happily yield to our distinguished Ranking Minority Member.

Mr. RANGEL. Thank you. I know you have a time problem, and I will make my statement very short.

But, first, thank you for the exciting leadership that you brought to organized labor.

Mr. JOHN SWEENEY. Thank you.

Mr. RANGEL. It surprises me how so many people who benefited indirectly or directly from setting standards and working conditions and pensions and health programs now believe that all of a sudden that management is going to do the right thing without organized labor there making certain that it's done through negotiations. And in keeping up with the fact that it's changing times, changing economy, and we have to be engaged in international trade, if we're going to survive as a nation and continue to have economic growth, then we as a nation find labor once again trying to set some standards; that our prosperity is not based on the misery and pain caused by people in foreign countries.

It surprises me how our President can accurately detect that America will be the beneficiary of high-tech, high-paying jobs which we have, and will continue to have, and not even acknowledge the fact that, through this tremendous progress and expansion in trade, we cause people not dislocation, but pain and hopelessness in this country. Some would say that it's apples and oranges for me to advocate jobs now in rebuilding our cities, our infrastructure, but, as far as I'm concerned, Mr. Sweeney, you can't have effective trade abroad if you don't have an anchor in our cities and our ports, at our airports, and transportation and communication, to make certain that we can hold onto our leadership in trade.

So I know, without even asking you, that we can depend on your leadership to provide a more even playingfield for our workers to deal with foreign trade. But there's no reason why the President should not address the problem of the pain that trade causes, not just for the workers who will lose their jobs, but for their youngsters that would have no jobs to look forward to. I look forward to working with you, and I'm pleased to know you are working with the administration and the majority party to see whether or not we can move forward in this area without severely impacting the lives of the workers that made this country as great as it is today.

Thank you for taking the time to share your thoughts with us. Soon I'm contemplating putting in a bill, after talking with my colleagues and the leadership on both sides, to see whether or not we can incorporate the language that you are seeking and broaden the debate, rather than it be us against them.

Thank you so much for your leadership and your attendance today.

Mr. JOHN SWEENEY. Thank you very much, and we would strongly encourage you to continue to fight for jobs in the inner city. The infrastructure of our cities needs so much in terms of Federal programs. We would join you in any efforts in that direction.

Mr. RANGEL. Thank you.

Chairman CRANE. Mr. Neal.

Mr. NEAL. Thank you, Mr. Chairman.

Welcome, Mr. Sweeney. It's nice to see you again.

Two questions that are relatively brief. First, is it your opinion that trade agreements can be utilized by foreign countries that would enforce their own labor environmental laws satisfactorily? Second, your experience with TAA benefits, have they lived up to the promise of moving people in a transitional stage back to the work force in another capacity?

Mr. JOHN SWEENEY. We would certainly agree in terms of other countries, our trading partners, enforcing their own good environmental laws and protections. With regards to the TAA Program, we have found that it's not really used to the extent that it has the potential, because of the restrictions in it, and workers have felt excluded from the process and have not really had the benefit of it that it was intended for.

Mr. NEAL. Thank you, Mr. Chairman. I know he's in a hurry.

Chairman CRANE. I'm sorry, was there a question? Oh, Mr. English.

Mr. ENGLISH. Thank you, Mr. Chairman, and I want to welcome the panel.

Mr. Sweeney, I was intrigued by your testimony. I would take it from your testimony that you would be generally skeptical of the effectiveness of the so-called NAALC, the labor side agreement, on having a significant impact on either worker safety or worker conditions or workers' wages, and that it has not proven to be a very effective instrument for upward harmonization. Is that a fair characterization?

Mr. JOHN SWEENEY. That is correct.

Mr. ENGLISH. Have you had an opportunity to review the dispute settlement system that I believe Chairman Crane alluded that there were relatively few complaints relative to Mexico? Do you agree with your organization that the dispute settlement system has been ineffective in any particulars?

Mr. JOHN SWEENEY. With me is Thea Lee, who is our principal person on trade policy. I'd like to ask her to respond.

Mr. ENGLISH. I'd welcome that. Thank you.

Ms. LEE. Good afternoon.

The dispute settlement process has, in particular, in terms of the labor side agreement, been effective. It's done what it is supposed to do in terms of enforcing the agreement on the books. The problem is that the labor side agreement on the books is too weak. Even in the cases where the workers have won their case—for example, there is no effective remedy—the workers in Nuevo Laredo brought a case against Sony, and the National Administrative Office did find in favor of the workers; that the Mexican Government had persistently failed to enforce its own laws in the area of registering unions and allowing workers the freedom of association.

There is no remedy under the NAALC. The remedy is for a ministerial consultation to take place, and so the workers have not been rehired; the company has not been fined; the government has not paid any fines, either. And so the abusive practices have continued. So the main problem with the NAALC is that the agreement itself is too weak and does not allow for effective enforcement mechanisms.

Mr. ENGLISH. A more general question, Mr. Sweeney, and then I know your time is limited, so I'll let you go. Have you found that NAFTA has had a significant impact on collective bargaining in this country? For example, the concern raised by the AFL–CIO has been that, because of the low wages common to Mexico, that this would put pressure on American wages downward. Have you run into direct evidence of that, because I know your organization is involved across the board in collective bargaining?

Mr. JOHN SWEENEY. There is direct evidence of that in so many different industries and so many different negotiations. In the hearing room here today is Jay Mazur, who's the president of UNITE, the needle trades union, and he could certainly send you a long list of negotiations where this has been a major factor.

Mr. ENGLISH. Thank you. Knowing your time is limited, I appreciate the opportunity to ask those questions.

Mr. JOHN SWEENEY. Thank you.

Chairman CRANE. Thank you, and one final question from Mr. Levin.

Mr. LEVIN. Thank you. Welcome.

I'm glad Mr. English asked the question about enforceability because I think there's been a lot of misconception and misunderstanding as to how inadequate the enforcement provisions are on the labor market side. As you leave, there's some discussion about whether "labor rights," are a trade issue. Just in your own words, which can be so to the point, just tell us what your concerns are all about. Why do you see this as something that moves you to come here today and tell us about your concerns? Labor rights—it isn't human rights. What's the self-interest of your membership in it?

Mr. JOHN SWEENEY. Well, they see what's happened in their respective industries in terms of plant closings, in terms of jobs, good American jobs going to other countries, to countries where labor laws are very weak and workers are exploited; in many cases child labor exists, prison labor. There are so many different examples and so many horror stories that could be told, and labor rights are really interconnected with human rights in many cases in many countries. But the American labor movement strongly supports workers in their own countries getting a decent living and having decent laws protecting their environment, protecting their safety and health, as well as their economic conditions.

Mr. LEVIN. Thank you.

Chairman CRANE. Well, we thank you, Mr. Sweeney, for coming and testifying, and you are honorably discharged——

Mr. JOHN SWEENEY. Thank you very much, Mr. Chairman.

Chairman CRANE [continuing]. To make your press conference.

Mr. JOHN SWEENEY. And I thank the members of this panel as well for allowing me to do this. Thank you.

Chairman CRANE. Absolutely.

And our next witness is Mr. Liebenow.

STATEMENT OF LARRY A. LIEBENOW, PRESIDENT AND CHIEF EXECUTIVE OFFICER, QUAKER FABRIC CORP., FALL RIVER, MASSACHUSETTS; AND CHAIRMAN, WESTERN HEMISPHERE TASK FORCE, U.S. CHAMBER OF COMMERCE

Mr. LIEBENOW. Mr. Chairman, thank you for inviting me to appear today. In my capacity as chief executive officer of Quaker Fabric and as chairman of the Western Hemisphere Task Force of the U.S. Chamber of Commerce, I've been able to observe at closehand some of the effects of the North American Free Trade Agreement. Today, I'd like to discuss four issues concerning this agreement, its impact on small- and mid-sized business growth, increased export opportunity, unresolved issues, and momentum for the future.

NAFTA has provided a stable and secure framework for doing business in Mexico and Canada for many Chambers of Commerce members. In areas such as domestic content requirements, measurement standards, labeling requirements, and other tariff and nontariff barriers, governments can create enormous obstacles that keep small- and mid-sized businesses from exporting. NAFTA has dramatically improved conditions in North America by eliminating many of these problems.

My own company, Quaker Fabric Corp., is a $200 million publicly traded textile company with five manufacturing plants in southeastern Massachusetts. Quaker has been in the upholstery fabric business for over 50 years. It currently employs about 1,750 people and markets its products in the United States and in many international markets as well. Last year about 20 percent of the company's sales were made outside the United States, and some 350 of the company's employees owe their jobs to Quaker's growing export operations.

Until 1992 we were unable to sell our products into the Mexican market. If a domestic manufacturer could produce a particular product, the Mexican market was basically closed to outside competitors. However, in anticipation of NAFTA, Mexico began the process of liberalizing these trade restrictions, and we were able to take advantage of the new opportunities that became available.

Clear trade rules have benefited U.S. companies in other ways. The outcome of the Mexican peso devaluation is a case in point. In response to this crisis, the Mexican Government raised tariffs on European and Asian exporters, and the resulting tariff hikes caused their exports to fall between 20 and 30 percent. A comparable tariff hike on U.S. business probably would have had a similar effect. However, due to its NAFTA obligations, Mexico could not unilaterally increase tariffs on United States goods. NAFTA worked to protect over 700,000 U.S. jobs that depend on exports to Mexico. NAFTA's protection sheltered many businesses like mine and allowed U.S. companies to continue to compete, despite a very difficult business climate.

NAFTA has also helped Mexico's recovery from its economic crisis. Because Mexico kept its commitments to open markets, the country's economy resumed growth quickly. Mexico's economy grew 4.5 percent last year, and United States exports increased 23 percent, a $10 billion sales increase. In fact, since 1993, United States exports to Mexico have increased by 62 percent and are projected to hit $68 billion for 1997. To put this in perspective, this will soon make Mexico our second largest trading partner. In 3 out of the last 4 years, exports have increased by more than 20 percent each year, and more than 3 out of every 4 dollars Mexico spends on foreign goods are spent on United States products.

Let me try to set the record straight about our imports from Mexico. Mexican businesses have increased their exports to the United States, in many cases displacing Asian imports with little or no United States content. On average, over 50 percent of all of the content of goods imported from Mexico is United States made. In the apparel industry, close to two-thirds of the value of Mexican apparel imports in 1996 were comprised of United States content. The Mexican share of United States apparel imports has risen to 9.6 percent of the market, while Asian apparel imports have fallen from 39 percent in 1993 to 30 percent of the market in 1996. NAFTA makes each of our economies more competitive for the benefit of workers and companies, just like Quaker in the United States, as well as for the benefit of workers in Canada and Mexico.

While NAFTA has provided many benefits for the U.S. and Chamber of Commerce members, there are still unresolved issues on the table. Many important items remain outstanding. In particular, the cross-border trucking dispute needs to be resolved. The current system is cumbersome, very expensive and frustrating for truckers and the many businesses using land transportation to get the goods to the Mexican market. This dispute has also held up progress on a number of other fronts. Among the issues held hostage by the trucking industry is our access to the Mexican market for small package delivery companies, issuance of new rules authorizing the use of standard 53-foot trailers in Mexico, and we must resolve these issues as quickly as possible.

The evidence from NAFTA provides great hope for the future, and frankly, a little impatience that we cannot accelerate the process toward increased free trade throughout the hemisphere. It's essential this movement toward zero-tariff barriers be implemented across the Americas. The FTAA to be established in 2005 is vital, and I hope Congress will take immediate, concrete steps to facilitate its establishment, starting with approval of clean fast track authority.

Last year about 40 percent of Quaker's export sales went into the Canadian and Mexican markets, including some $6 million into Mexico. Another $1 million went into Latin American countries other than Mexico. There's clearly a large and growing market in Latin America for our products. In Mexico alone, our sales grew at a rate of 53 percent in 1996, and are growing at 40 percent so far this year.

The rest of the hemisphere, exclusive of Mexico and Canada, should provide us additional sales opportunities of some $25 million. The realization of this potential would create another 200 jobs in Massachusetts.

There are still trade barriers to break down. As recently as last week, I was informed by our sales representative in Chile that we had lost an opportunity for a $1.8 million a year account to a competitor of ours in Mexico, solely as the result of an 11-percent duty differential.

On its own, Quaker, like many Chamber of Commerce member businesses, can compete successfully on the basis of design, quality, and service with any of our Latin American counterparts. What Quaker cannot do on its own is get its products into Argentina, Brazil, Bolivia, or Chile duty free. Quaker has already demonstrated that it's possible to prosper as a textile manufacturer in New England. Quaker is not afraid to play to win on a level playingfield in Latin America. Passage of the fast track legislation needed to bring Chile into NAFTA would help make that possible. Continuing to support protrade legislation until the free trade era of the Americas is a reality would virtually guarantee it.

The United States must lead this effort. Our government's policymakers represent the interests of American companies of all sizes. Unfortunately, without fast track negotiating authority, the United States is forced to sit on the sidelines while other nations negotiate trade pacts without us. NAFTA was a vote for competitiveness. Fast track authority and the FTAA will be important votes for competitiveness. The benefits of NAFTA will only be increased with its extension to Chile. Give our negotiators clean and broad fast track negotiating authority now, put them back at the table, let them hammer out a deal to add Chile to the North American Free Trade Agreement, and bring the dream of a free trade zone spanning the Americas one step closer.

Thank you.

[The prepared statement follows:]

Statement by Larry A. Liebenow, President and Chief Executive Officer, Quaker Fabric Corp., Fall River, Massachusetts; and Chairman, Western Hemisphere Task Force, U.S. Chamber of Commerce

Mr. Chairman, thank you for inviting me to appear before this panel today. In my capacity as CEO of Quaker Fabric and as Chairman of the Western Hemisphere Task force for the U.S. Chamber of Commerce, I have been able to observe at close hand the effects of the North American Free Trade Agreement (NAFTA). Today, I would like to discuss five issues concerning this agreement. Namely, its impact on (1) small and mid-sized business growth, (2) increased export opportunity, (3) job creation, (4) unresolved issues and (5) momentum for the future.

Let me elaborate on these points.

1. Small and Mid-Sized Business Growth

What has NAFTA's impact been on the growth of U.S. small and mid-sized business?

NAFTA has provided a stable and secure framework for doing business in Mexico and Canada. It has meant that small and mid-sized businesses like mine can husband scarce resources and use domestic bases of operation, and yet still do business internationally. Instead of having to spend money fighting through costly bureaucracies or building up duplicate factories in remote locations, the agreement has allowed us to expand our market opportunities and business horizons. In areas such as domestic content requirements, different measurement standards, labeling requirements, and other tariff and non-tariff barriers, governments can create enormous obstacles that keep small and mid-sized businesses from exporting. Instead, I am happy to say that NAFTA has dramatically improved conditions in North America by eliminating many of these problems.

To show how important NAFTA is, let me give you, as an example, a case study concerning my own company.

Quaker Fabric Corporation is a $200 million publicly traded textile company with five manufacturing plants in southeastern Massachusetts. Quaker has been in the upholstery fabric business for over fifty years. It currently employs about 1,750 people, and markets its products in the U.S. and in many international markets as well. Last year, about twenty percent of the company's sales were made outside the U.S., and some 350 of the company's employees owe their jobs to Quaker's growing export operations.

While many underestimate the potential of the U.S. textile industry, Quaker is determined to be an outstanding performer. A key component of the company's strategy is to be a leader in the worldwide upholstery fabric market. Today, Quaker markets its products in 42 countries, has warehouse distribution centers in Mexico and the Netherlands, and sells more than $36 million of fabric outside the U.S. annually.

International trade has been a key component of the growth strategy that has enabled my company to double its sales since 1990. In 1990, Quaker employed 1,100 workers and was adrift and struggling to sell its products in a mature and very competitive domestic market. Quaker chose to grow and compete, not only in the U.S., but in foreign markets as well. We decided that Mexico was a key market for our future plans.

Until 1992, we were unable to sell our products into the Mexican market. At that time, Mexico had a policy of import substitution. If a domestic manufacturer could produce a particular product, the Mexican market was basically closed to outside competitors. However, in anticipation of NAFTA, the Salinas government began the process of liberalizing these trade restrictions, and we were able to take advantage of the new opportunities that became available. NAFTA consolidated and provided an institutional foundation for the Salinas government reforms.

The establishment by NAFTA of clearly defined trade and investment rules provided a framework, which we did not have before, for businesses like mine. These trade and investment rules are particularly important for small and mid-sized businesses like ours that cannot easily overcome the barriers to U.S. exports.

There are other ways that the benefits of clear trade rules have benefited U.S. companies. A good example of these benefits is reflected by the outcome of the Mexican peso devaluation. After the Mexican government devalued its currency in late 1994, the Mexican economy shrank seven percent and U.S. exports fell nearly nine percent. It was the worst economic crisis in Mexico since 1932. But the impact of this crisis on U.S. exporters was mitigated by the existence of NAFTA.

In response to this crisis, the Mexican government raised tariffs on European and Asian exporters. The resulting tariff hikes caused their exports to fall between twenty and thirty percent. A comparable tariff hike on U.S. business probably would have had a similar effect. However, due to its NAFTA obligations, Mexico could not unilaterally increase tariffs on U.S. goods. As a result, U.S. exports did not fall nearly as dramatically; instead, NAFTA worked to protect over 700,000 U.S. jobs that depend on exports to Mexico. NAFTA's protections sheltered many businesses like mine and allowed U.S. companies to continue to compete despite a very difficult business climate.

This leads me to my second point.

2. Increased Export Opportunities

NAFTA also helped accelerate Mexico's recovery from its economic crisis. Because Mexico maintained its commitment to open markets, the country's economy has started to grow again. Mexico's economy grew four and one-half percent last year and U.S. exports increased twenty-three percent—a $10 billion sales increase.

In fact, since 1993, U.S. exports to Mexico have increased by sixty-two percent and are projected to hit $68 billion for 1997. To put this in perspective, this is slightly more than half of all of our exports to Latin America, and makes Mexico our second largest trading partner. In three out of the last four years, exports have increased by more than twenty percent each year, and more than three out of every four dollars Mexico spends on foreign goods are spent on U.S. products.

Of course, NAFTA is a two-way street and Mexican businesses have been able to increase their exports to the United States as well. But this is also positive in that some cases, this has meant displacing Asian imports with little or no U.S. content. In contrast, close to two-thirds of the value of Mexican apparel imports in 1996 was comprised of U.S. content. During this period, the Mexican share of U.S. apparel imports has risen to 9.6% of the market, while Asian apparel imports have fallen from thirty-nine percent in 1993 to thirty percent of the market in 1996.

Thanks to NAFTA, U.S. consumers are able to enjoy a wide variety of products at lower prices than might otherwise be available. Competition forces companies to continually improve their products and services in order to survive. Consumers reap these benefits through lower prices, products that meet their needs more effectively, and a wider range of selection. Let's not forget that one of the reasons that U.S. inflation has remained so low over the last five years is due to the competitive economic environment. NAFTA is part of the institutional framework underpinning this economic structure.

U.S. companies benefit from the increased purchasing power of Mexican businesses and consumers. While the Mexican economic crisis had a serious impact on the country's economic confidence, sales figures from my own company and anecdotal evidence from other companies indicate that, at the retail level, Mexican consumer confidence is increasing. This increased purchasing confidence, ability, and power will only continue to benefit U.S. producers in the long-term.

3. Job Creation

As I mentioned before, over 350 people employed by my company have their jobs either directly or indirectly because of NAFTA and the other alternative markets Quaker has developed. Thanks to NAFTA's rules of origin, production that had been based in Asia is shifting back to North America.

Contrary to Ross Perot's predictions, we have not had dramatic job losses directly attributable to NAFTA. Trade is not a zero-sum game, and the past few years have proven that NAFTA was a win-win proposition for the U.S., Canada and Mexico.

The effects of Mexican growth aren't only felt in terms of increased sales for U.S. business. As we have seen in Japan and the newly industrialized nations of the Pacific Rim, economic development will lead to higher wages and salaries in Mexico as well. This phenomenon could well have a stabilizing effect on labor markets throughout North America, and over time allay some of the concerns which have been raised about the disparity in wage rates across the border.

4. Unresolved Issues

While NAFTA has provided many benefits, there are still unresolved issues on the table.

We have already built a great deal of momentum based on the frameworks that have been established and implemented. We need to use this momentum to deepen and expand NAFTA through full implementation of the trilateral agreement between the U.S., Canada, and Mexico.

Many important items remain outstanding; in particular, the cross-border trucking dispute needs to be resolved. An inefficient border raises the cost of transporting goods, a cost that is inevitably passed along to consumers. It seems that the United States has finally developed the political will to seek implementation of this part of the agreement—now suspended since December 18, 1995. The Mexican and U.S. governments need to continue to make progress toward resolving this issue. The current system is cumbersome, very expensive, and frustrating for truckers and the many businesses using land transportation to get their goods to the Mexican market.

This dispute has also held up progress on a number of other fronts. Among the issues held hostage by the trucking dispute are access to the Mexican market for small package delivery companies, and the issuance of new rules authorizing the use of standard 53-foot trailers in Mexico. We must resolve these issues quickly so that companies across North America can benefit from the trilateral agreement.

5. Momentum for the Future

The evidence from NAFTA provides great hope for the future, and frankly, a little impatience that we cannot accelerate the process toward increased free trade throughout the hemisphere.

It is essential that this movement toward zero tariff barriers be implemented not only in North America, but also across the Americas. The Free Trade Area of the Americas (FTAA), to be established in 2005, is a worthy, important goal, and I hope Congress will take immediate, concrete steps to facilitate its establishment, starting with approval of Fast Track Authority.

The Western Hemisphere represents one of our best growth opportunities. However, U.S. trade policy to date has not made it possible for us to fully tap the potential of this market—other than in Mexico and Canada. We are leaving money—and jobs—on the table. To achieve our growth objectives, we need NAFTA-like trade agreements in place throughout the hemisphere.

Quaker already has an established position with its NAFTA trading partners and in the balance of the Western Hemisphere. Last year, about forty percent of the company's export sales went into the Canadian and Mexican markets, including some $6 million into Mexico. Another $1 million went into Latin American countries other than Mexico. There is clearly a large and growing market in Latin America for our fabrics and, in Mexico alone, our sales grew at a rate of fifty-three percent in 1996 and are growing at about forty percent so far this year. The rest of the Hemisphere, exclusive of Mexico and Canada, should provide us additional sales opportunities of some $25 million. The realization of this potential would create another 200 jobs in Massachusetts.

Chile is a case in point. As recently as last week, I was informed by our sales representative in Chile that we had lost an opportunity for a $1.8 million a year account to a competitor of ours in Mexico solely as a result of the eleven percent duty differential involved. This happened because Chile already has trade agreements in place with Mexico, Canada, and the Mercosur countries. It is possible that Chile may strike a similar deal with the European Union next.

There are fabric manufacturers in Mexico, Canada, the Mercosur countries and the European Union. They are Quaker's competitors. Quaker has customers in Chile. So do they. Last year, Quaker sold approximately $300,000 of product into Chile. But to do that, Quaker's customers in Chile had to be convinced that our products were so good that they were worth the extra eleven percent duty required to bring them into Chile—eleven percent that is not a factor for our Mexican, Canadian, or Mercosur competitors. Our products are so good that we can do that in some cases—but it is an uphill battle—and hardly the level playing field we have been counting on our government to create.

In the balance of Latin America, the situation is no different. For example, there is an active and important fabric and furniture manufacturing industry in the Mercosur countries. On its own, Quaker can compete successfully on the basis of design, quality and service with any of its Mercosur counterparts. What Quaker cannot do on its own—is get its products into Argentina, Brazil, Paraguay, Uruguay, Bolivia, or Chile duty-free. Even without the kind of level playing field a trade agreement with the Mercosur countries would give Quaker, Quaker still sold over $600,000 into those markets last year without help. However, we need to smooth the way for Quaker and other U.S. companies like Quaker to do their very best. We must let the competitiveness of our products and our people—not trade barriers—be the sole factor determining whether American businesses win or lose.

Quaker has already demonstrated that it is possible to prosper as a textile manufacturer in New England. Quaker is not afraid to play to win on a level playing field in Latin America. Passage of the Fast Track legislation needed to bring Chile into NAFTA would help make that possible. Continuing to support pro-free trade legislation until the Free Trade Area of the Americas (FTAA) is a reality would virtually guarantee it.

The United States must lead this effort in order to ensure that, when the rules of the FTAA are written, our government's policymakers represent the interests of American companies of all sizes. Unfortunately, without fast-track trade negotiating authority, the United States is forced to sit on the sidelines while other nations proceed to negotiate their own trade pacts.

Wouldn't you hate to hear that a U.S. company lost a major contract in Brazil or Argentina or Chile because they were a few percentage points more expensive than a local competitor due to our delay in negotiating equal terms for U.S. exporters?

NAFTA was a vote for competitiveness. Fast Track authority and the FTAA will be important votes for competitiveness.

The benefits of NAFTA will only be increased with its extension to Chile. Give our negotiators clean and broad fast-track negotiating authority now, put them back at the table, let them hammer out a deal to add Chile to the North American Free Trade Agreement and bring the dream of a Free Trade zone spanning the Americas one step closer. Thank you.

Chairman CRANE. Thank you, Mr. Liebenow.

Mr. Van Putten.

STATEMENT OF MARK VAN PUTTEN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL WILDLIFE FEDERATION

Mr. VAN PUTTEN. Thank you, Mr. Chairman and Members of the Subcommittee. I appreciate this opportunity to testify on behalf of the National Wildlife Federation on the administration's review of NAFTA. In light of the President's request for fast track negotiating authority, this topic is of great importance and the NAFTA experience should guide our thinking about the scope and nature of fast track legislation.

The National Wildlife Federation is America's largest not-for-profit conservation education organization with over 4 million members and supporters. In addition to our individual members, we count among our supporters our State affiliate organizations such as the Michigan United Conservation Clubs, Pennsylvania Federation of Sportsmen, and others. In fact, it is the delegates elected by these organizations that establish our policy positions.

The National Wildlife Federation is also America's mainstream and main street conservation organization. Our members understand the link between sustainable economic development and environmental protection, and that is a fundamental value that they understand is at stake as we view fast track authority negotiating authority.

Finally, with respect to NWF, it's critical to state that we supported NAFTA. We took a very courageous, a very difficult position that separated us from many of our often-colleague organizations in supporting NAFTA. We believed the promise of NAFTA. We believed in the potential of trade as an instrument to enhance environmental protection. It is against that backdrop that I testify today on the administration's comprehensive review.

We draw two lessons from this review and from our analysis and experience with NAFTA. The first lesson we draw: That parallel agreements are important and they are essential. The second lesson we draw is that they are not enough, and that we must have in fast track legislating authority a more closely intertwined commitment to environmental protection. I would like to elaborate on each of those points, if I may.

With respect to parallel agreements and the institutions created by them as being essential, we believe there has been some significant progress though the CEC, the BECC, and the NADBank, and those institutions, and in my written statement we cite some specific examples of ways in which we believe those institutions have empowered citizens, have provided citizens with additional access to important information, and have provided a venue in which there can be international and intergovernmental collaboration.

We are disappointed these institutions have gotten off to a slow start. We are disappointed these institutions have not produced more, but we continue to believe they are an important component of trade arrangements to allow us to work with other governments and enhance the institutional capacity of not just those governments, but their citizens to participate in enhanced environmental protection.

At our recent annual meeting in Tucson, Arizona, we had a major session on this issue. Linda Taylor, who is a citizen representative to BECC, was one of our award winners and she participated in the discussion. She had some very interesting stories about her Mexican colleagues for the first time having to deal with citizen pressure through the BECC to address some of the environmental problems in their communities. It was a new experience for them. It was a democratizing experience for them, and we believe those institutions present that sort of promise.

But side agreements are not enough. As an organization that supported NAFTA based on side promises and side agreements, we are skeptical. We believe that this time around with fast track it is essential to move beyond the promise of NAFTA, to make the full integration of environmental concerns and trade concerns a reality.

Given the current political environment that appears somewhat hostile to this notion, given so far the administration's unwillingness to stand for this principle, the National Wildlife Federation is opposed to fast track legislation without specific negotiating objectives that relate for the environment and adequate evidence of a continuing commitment to integrating the globalization of trade with the enhancement of the world's environment.

Thank you very much.

[The prepared statement and attachment follow:]

Statement of Mark Van Putten, President and Chief Executive Officer, National Wildlife Federation

I want to thank you for the opportunity to share our evaluation of President Clinton's Comprehensive Review of the NAFTA before the House Committee on Ways and Means, Subcommittee on Trade. In light of the President's request for fast track negotiating authority, it is a topic of great importance. The NAFTA review offers lessons for future trade and investment negotiations, and should therefore guide our thinking as we consider the scope and nature of fast track. I am Mark Van Putten, President and CEO of the National Wildlife Federation. Our broad constituency of over 4 million members and supporters includes sportsmen and women and a cross-section of the American public. Our motto is "people and nature—our future is in the balance," a motto we believe applies equally to trade agreements as to other aspects of the American economic landscape.

Our message today is straightforward. After a review of the President's Study on the Operation and Effects of the North American Free Trade Agreement, and upon reflection on our own evaluation of the environmental provisions found in the "NAFTA package," we offer the following evaluation:

- NAFTA's supplemental agreements still represent good first steps toward synthesizing environmental interests in trade policy. This is especially true when evaluating the performance of NAFTA's environmental organizations—the North American Commission for Environmental Cooperation (CEC), the Border Environmental Cooperation Commission (BECC) and its funding wing the North American Development Bank (NADBank).
- However, the environmental provisions of the NAFTA itself fail to meet the commitment made to this Committee by then-President George Bush to ensure the United States' ability to safeguard the environment. NAFTA does not strike a balance between trade and environmental objectives because it establishes a trade regime that unfairly subjects legitimate environmental laws, that may have incidental negative implications for trade liberalization, to challenges by trade advocates.

When we supported NAFTA's passage in 1993 we did so believing we would continue our work with the Administration and with Congress to improve upon NAFTA's environmental provisions and forge future trade agreements that actively promote sustainable development. Unfortunately, as we consider President Clinton's request for fast track authorization to negotiate and deliver to Congress new trade and investment agreements, we face an entirely different situation. The high water mark left by NAFTA's environmental provisions has long since faded, and the scope and nature of trade and investment policy negotiations since NAFTA cast doubt on the Clinton Administration's commitment to an environmental agenda for trade negotiations. Any effort by this Administration to further the linkages between trade and the environment has been met with a level of hostility from Congress—in particular from this Committee—that 'main street and mainstream' groups like NWF simply do not understand. We are not asking for special favor, only that negotiators recognize the complex relationships between environmental protection and trade liberalization, and negotiate rules that promote a more equitable distribution of human wealth and environmental quality. Given a political environment hostile to our efforts to improve upon NAFTA's environmental provisions, and an Administration unwilling to lead the world toward environmentally responsible trade, we are forced to oppose fast track unless it contains both specific negotiating objectives for the environment and adequate evidence of the Administration's commitment to environmentally responsible trade.

The following testimony is informed by our experience with NAFTA and its implementation. It relies on NWF's own analysis of the performance of NAFTA's parallel institutions[1] to explain our goals for future trade and investment agreements.

PARALLEL AGREEMENTS WORK

The first lesson taught by the NAFTA package is that parallel agreements designed to address the broader social and environmental implications of economic integration are essential if we are to "ensure that North Americans do not obtain the benefits of economic development at the expense of environmental protection."[2] NAFTA's environmental organizations play an important role in promoting higher standards of environmental protection. Despite their short time on the job, all three organizations exhibit evidence of the successful implementation of their programs:

• CEC and BECC decision-making processes empower citizens to play an active role in efforts to define and prioritize environmental problems, and to develop and implement concrete solutions to these problems.

—The BECC has certified 16 environmental infrastructure projects, with a combined cost of nearly $230 million dollars.

—The NADBank created funding packages for four of these projects, two on each side of the border, and is currently working on developing technically and financially sound packages for three other projects. Four other BECC-certified projects sought funding from sources other than the NADBank.

—The CEC's agenda for 1997 is designed to facilitate cooperation and public participation in environmental conservation efforts. Five of the eight project areas

—Habitat and Species; Reducing Risk from Chemical Exposure; Climate Change and Energy Efficiency; Cooperative Enforcement Programs; and Technology Cooperation—work hand in glove with this nation's environmental protection program.

• Environmental agencies at the local, state, and national levels collaborate to help build agency capacity to enforce environmental laws.

—In 1996, the EPA held 20 workshops, training over 220 inspectors from U.S. and Mexico.

—NADBank has set aside $2 million of its earnings to establish an institutional development program to help communities operate environmental infrastructure systems more efficiently.

—BECC established a technical assistance program to help communities develop stronger infrastructure project proposals.

• CEC investigations, reports, and programs collect and disseminate information useful to citizens interested in monitoring the behavior of both governments and industries.

—The CEC has received eleven requests from citizens to investigate government enforcement of its environmental laws; four have resulted in formal investigations or the completion of factual records. And while the balance of the petitions did not result in formal action by the CEC, they did serve to broaden public interest in the relationship between trade rules and environmental protection.

Perhaps of even greater importance is the ability of these organizations to develop the capacity of citizens and governments to protect their own environment. For example, the BECC and NADBank created programs to provide communities with the necessary technical and management skills to develop and implement sound solutions to environmental problems. The CEC's programs and public reports help citizen's groups perform the essential role of "watch dog" over agency and industry performance. For example, pilot projects begun along the borders between in Maine and New Brunswick in the northeast, and between California and Baja California in the

[1] Two reports—one an analysis of the performance of the BECC and NADBank, the other an analysis of the CEC—will be completed by the beginning of October. Upon their completion, I ask the Committee to make these reports part of the permanent record of this hearing. John J. Audley, Program Coordinator for Trade and the Environment of the National Wildlife Federation, can furnish copies of these reports.

[2] The White House, Study on the Operation and Effects of the North American Free Trade Agreement (The Study). (Washington, DC: Office of United States Trade Representative, July 1997). Page 114.

southwest involve citizens groups in an effort to reduce sewage discharge to the oceans by fifty percent in five years.[3]

While we believe these institutions on the whole are acting responsibly, we also acknowledge their deficiencies. The CEC took too long to develop such a specific work program, and it continues to struggle against efforts by some NAFTA parties to resist the implementation of their program. In particular, the government of Mexico has consistently blocked the CEC's efforts to develop consensus on environmental issues that are of common concern to all North Americans.[4] We also recognize that the NADBank's ability to fund badly needed infrastructure projects for poor communities is constrained by its mandate to fund only "economically viable" projects. While the BECC and the NADBank continue to struggle to coordinate their own relationships, not enough is being done to clean up the Mexico-U.S. border. It is unfair to border residents to promise them a solution to the environmental problems and then not fully empower the resulting body to meet that promise.

We are also disappointed that the Administration claims to have "revitalized a long history of bilateral cooperation"[5] with the creation of these new organizations. For decades Mexican, Canadian and U.S. citizens have worked hard to resolve their own environment and development problems, and in many circumstances this was in spite of efforts by national governments to constrain them. At the same time we must recognize that the environmental problems facing these three nations were decades in the making; to expect to resolve them all in only three short years is an unrealistic demand. In short, we believe that the BECC, NADBank and CEC are fragile institutions that are unique in character and experimental in many of their programs. They have made much progress over the past two to three years and they deserve our praise. They do not deserve the unrelenting criticism directed against them for failing to meet unrealistic expectations.

The most important lesson we draw from NAFTA is that, if negotiated properly, and in conjunction with trade and investment agreements, parallel environmental organizations perform the essential function of addressing the broader implications of economic integration. They help "[e]nsure that the public's concerns regarding environmental matters will be heard and facilitat(e) joint efforts to address common environmental problems."[6] These are values I believe we all share in common, values that promote American ideals of how governments can and should respond to citizen's demands. Because I believe we share these values, I am puzzled when I consider your unwillingness to support our call to the Administration to negotiate supplemental agreements to help ensure that people benefit from trade liberalization without doing harm to their environment. Why would we want to constrain the President from negotiating trade agreement packages that expand trade while protecting the environment, and in turn create mechanisms designed to hold governments accountable for their actions?

THE NAFTA TEXT: A LESSON ON HOW NOT TO NEGOTIATE GREEN TRADE AGREEMENTS

While we are generally supportive of the performance of NAFTA's parallel institutions, we disagree with the Administration's claim that the NAFTA text meets the commitment made to Congress by President Bush to ensure the right to safeguard the environment.[7] Based on our analysis we believe NAFTA's trade regime subjects legitimate environmental regulations to unfair challenge by trade advocates.[8]

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[3] See, The Commission for Environmental Cooperation, Global Program of Action for the Protection of the Marine Environment from Land Based Activities. (Montreal: Commission for Environmental Cooperation, 1997).

[4] See letter endorsed by Defenders of Wildlife, the Community Nutrition Institute, the National Audubon Society, the National Wildlife Federation, the Sierra Club, and the World Wildlife Fund, to the Honorable Carol M. Browner, Administrator, United States Environmental Protection Agency, July 10, 1997.

[5] The Study. Page 111.

[6] The Study. Page 111.

[7] See "Response of the Administration of George Bush to Issues Raised in Connection with the Negotiation of a North American Free Trade Agreement," published in Daniel Magraw, editor, NAFTA and the Environment: Substance and Process. (the American Bar Association, 1995). Page 163.

[8] See letter from John J. Audley, Program Coordinator for Trade and the Environment, the National Wildlife Federation, to Jennifer Haverkamp, Assistant U.S. Trade Representative for Environment and Natural Resources, Office of the United States Trade Representative. September 8, 1997.

Nowhere is this more evident than in the recent case brought by the Ethyl Corporation against the government of Canada.[9] A U.S. corporation, dissatisfied with a Canadian environmental regulatory decision, is seeking to obtain compensation for the alleged "expropriation" of its property, through NAFTA's dispute resolution mechanism—compensation which would not be available under the constitution and laws of Canada, nor for that matter, of the United States if such a case were brought here. More recently, efforts by environmental organizations to promote the use of private third party environmental labels as part of the EPA's government procurement procedures have been stymied because EPA officials fear such recommendations may be in violation of NAFTA and GATT trade provisions. Finally, in a challenge brought by the United States and Canada, the WTO overturned a European ban on beef treated with growth hormones.[10]

Each of these cases underscores an important lesson learned by citizens groups engaged in trade policy advocacy. While the NAFTA "[i]includes numerous provisions designed to safeguard the environment,"[11] these provisions are essentially only hortatory language promoting sustainable development, and admonishing governments not to weaken environmental laws to encourage investment. They are inadequate measures to guarantee a nation's right to safeguard its own people and environment, and they are no match for trade dispute resolution panels with clear rules and narrow goals. We need parity between environment and trade priorities.

In a letter recently sent to USTR officials, NWF staff presented to the Administration a list of environmental objectives for negotiations we believe must be a part of the fast track authorization package. These recommendations are attached, as an important part of this testimony because they challenge this Committee to rethink its position on environment and trade. We encourage you to stop asking whether environment should be an issue for trade negotiations and instead to ask how best to incorporate it to actively promote sustainable development. We need to include environment in trade negotiations to make certain that US firms operating in compliance with environmental laws are competing on a playing field made level by trade rules that compel companies to internalize environmental costs, and governments to enforce the environmental regulations. We need parallel agreements that actively promote capacity building and democratic reform. Finally, we need fast track only if it guarantees that such objectives are an integral component of US negotiators' goals, and provides both Congress and the American people adequate avenues to hold those negotiators accountable. With your help, together we can make this happen.

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[9] Please refer to the *Ethyl Corporation* v. the *Government of Canada,* UNCTRAL. Filed April 14th, 1997. See also Michelle Sforze, Preamble Center for Public Policy and Mark Vallianatos, Friends of the Earth, "*Ethyl Corporation* vs. *Government of Canada:* Chemical Firm Uses Trade Pact to Contest Environmental Law," (Washington, DC: The Preamble Center, 1997).

[10] See Mark Abley, "World Trade Organization: The Whole World in its Hand," Toronto Gazette, April 19, 1997. See also an internal memorandum prepared by Jake Caldwell, the Community Nutrition Institute, "WTO Panel Decision on EU–US Beef Hormone Dispute—Preliminary Analysis," (Washington, DC: The Community Institute, (202) 776–0595). 5/13/97.

[11] The Study. Page 114.

NATIONAL WILDLIFE FEDERATION®
People and Nature: Our Future Is in the Balance

International Office

September 8, 1997

Jennifer A. Haverkamp
Assistant U.S. Trade Representative for
Environment and Natural Resources
Office of the United States Trade Representative
Executive Office of the President
Washington, D.C. 20508

Dear Jennifer:

Thank you for meeting with Barbara Bramble and me to discuss environmental issues related to President Clinton's upcoming request for fast track negotiating authority. We appreciate the opportunity to share with you our vision for promoting sustainable development by negotiating environmentally responsible trade agreements.

Let me preface this letter by saying that since 1989 the National Wildlife Federation has worked to advance environmental issues in trade policy negotiations. Under the leadership of both Presidents George Bush and Bill Clinton, NWF worked with Administration officials and members of Congress to forge the first steps toward environmentally responsible trade policy. Unfortunately, the high water mark left by the North American Free Trade Agreement (NAFTA) has long since faded, and the scope and nature of trade policy negotiations since NAFTA cast doubt on the Clinton Administration's commitment to an environmental agenda for trade negotiations. Evidence of the lack of commitment to balancing environment and trade priorities is evidenced by the U.S. performance at the World Trade Organization (WTO); in the separate and unequal negotiating processes adopted during the 1994 Summit of the Americas for the sustainable development agenda versus the Free Trade Agreement for the American (FTAA); and in the United States' role in negotiating the Multilateral Agreement on Investment. In short, the Clinton Administration no longer provides world leadership on trade and the environment, and we believe this situation must change.

The National Wildlife Federation will work hard to ensure that any trade or investment agreement brought before Congress actively promotes sustainable development. At the same time we are prepared to oppose trade and investment agreements that fail to strengthen the relationship between trade and the environment forged by NAFTA. With these thoughts in mind, I offer you these recommendations to consider as you prepare your proposal for fast track negotiating authority.

Commitment to an Environmental Agenda in Trade Policy

I recognize that fast track is a set of procedures designed to expedite congressional action on trade agreements and was not designed to provide the Administration with a strict agenda for negotiations. Nevertheless, given the Administration's record of poor performance on trade and the environment, and the current climate in Congress hostile to linkages between trade rules and environmental priorities, fast track authorization must take on the additional burden of providing adequate evidence of the Administration's commitment to an environmentally responsible trade negotiating agenda. Before the Administration asks environmental groups for support on fast track, we urge you to take the following steps:

Withdraw the Multilateral Agreement on Investment from Consideration Under Fast Track: On February 13, 1997 nine national environmental organizations wrote to USTR Ambassador Charlene Barshefsky to express their dismay over the scope, nature, and the secretive process of MAI negotiations. Notwithstanding the usefulness of recent briefings by USTR and State Department officials on MAI, the entire MAI process has been the antithesis of proper trade and investment negotiations.

Fast track authority commits the Administration to keep both Congress and the public informed of the negotiation's objectives and progress. In our opinion the MAI currently under negotiation by OECD countries cannot meet this requirement because interested parties were not included during the crucial stages of negotiations. We strongly recommend that President's request for fast track explicitly exclude the MAI.

Leadership at the CEC: On July 10, 1997, six environmental groups wrote to EPA Administrator Carol Browner to express their concern over the Administration's lack of commitment to the CEC. Among other concerns articulated in that letter, it is our understanding that some NAFTA parties are using the United States' lack of support for the CEC to challenge the Secretariat's authority to establish and implement a dialogue and research agenda for trade and for the environment. While we appreciate Administrator Browner's commitment to domestic environmental matters, international environmental issues must be given at least as high a priority, especially when the international policies in question have direct implications for national environmental policy.

We strongly urge the Administration to provide evidence of renewed support for, and involvement with, CEC activities. In particular, the Administrator should capitalize on the CEC's ability to seek regional solutions to environmental problems. National policy initiatives designed to protect endangered species and improve air quality are enhanced if they are also implemented at the regional level. We also encourage the Administrator to urge other NAFTA parties to use the National Advisory Committees to their fullest extent.

Participation in the April 1998 Trade and Environment Symposium: In April, 1998 the government of Costa Rica plans to hold a symposium on how best to advance the trade and environment policy agenda. The symposium will be targeted at the ministers of trade and the environment of Western Hemisphere nations, and representatives of civil society. With its long history of concern for the environment, and as the lead country in FTAA negotiations, we believe Costa Rica's leadership in linking trade negotiations and environmental priorities deserves our strongest support. We ask that EPA Administrator Browner and USTR Ambassador Barshefsky pledge to attend this conference and to use their influence with other trade and environment ministers to ensure the widest participation possible.

To respond in a timely fashion to the foregoing recommendations, the Administration could issue an executive memorandum that defines the Administration's agenda on trade and the environment. An environment and trade memorandum, issued before a vote on fast track, would provide environmental organizations with the opportunity to evaluate the Administration's strategy for negotiating environmentally balanced trade agreements.

Fast Track Negotiating Objectives

The Trade Act of 1974 (19 U.S.C. 2191) and the Omnibus Trade and Competitiveness Act of 1988 (19 U.S.C. 2903) establish broad objectives and procedures designed to assist the Administration in its efforts to negotiate trade agreements consistent with U.S. national interests. We believe the following negotiating recommendations and changes to fast track procedures are consistent with the statutes' existing provisions. We also believe they are essential guides for the USTR to negotiate greener trade agreements. We therefore urge the Administration to formally include these recommendations in their request for fast track authority:

List Negotiations Targeted for Fast Track: Blanket fast track authority provides the Administration broad authority to negotiate and submit to Congress a whole host of trade and investment agreements. We believe it is fair to ask the Administration to identify those negotiations to which this fast track would apply, and better inform Congress and the public of its negotiation intentions.

Parity Between Trade and Environment: One lesson taught by NAFTA and the Uruguay Round is that the "general exceptions" provisions, purportedly designed to insulate legitimate environmental laws from trade challenge, are inadequate. For example, NAFTA Article 104 compels parties to implement international environmental laws in a manner "least inconsistent with the other provisions of this Agreement." The ambiguity surrounding this important phrase leaves open for challenge many environmental agreements. In addition, NAFTA Chapter Seven, Section B (Sanitary and Phytosanitary Measures) and Chapter Nine (Standards-Related Measures) create an unreasonably high standard for environmental regulations to pass the "trade consistent" test. These standards harm a nation's right to safeguard the environment, and therefore must be changed in the course of upcoming trade negotiations.

As part of its request for fast track we ask the Administration to formally commit to negotiate a balance between trade objectives and procedurally transparent, constitutionally consistent environmental laws which might incidentally have negative implications for trade. Non-discriminatory domestic regulations satisfying national treatment provisions should not be subject to challenge under the dispute provisions of a trade agreement. In particular, regulatory policies designed to discriminate between similar goods based on procedurally transparent production process methods (PPMs) should be an appropriate exception to trade liberalization. We also believe that, until such time that nations negotiate and endorse international agreements on risk assessment, determining the level of risk should be left to national legislators and not to international trade dispute bodies. Finally, the Administration should also commit to seeking environmental exceptions in trade and investment agreements that support the Polluter Pays and Precautionary Principle(s) as accepted in customary international law

Trade Enforceable Actions Taken for the Environment: Just as non-enforcement of property rights triggers a trade dispute, poor enforcement of environmental laws that have demonstrable effect on trade and investment should also be actionable under trade dispute proceedings. We believe it is unfair to businesses operating in a manner consistent with national environmental laws to be forced to compete with those who are not. We therefore urge the Administration to commit to negotiate the principle of "good environmental laws, well enforced," from Article III of the North American Agreement on Environmental Cooperation into the body of future trade and investment agreements. This language will establish the legal foundation for citizens and governments to take action for non-enforcement of national environmental rules under trade law within the established dispute settlement procedures of the parent trade and investment agreement.

Citizen Access to Dispute Proceedings: As currently written, both NAFTA and WTO dispute procedures prohibit public access to both the proceeding itself and relevant documents, and (in some instances) actually restrict publication of dispute panel decisions. We believe that the dispute process itself must be made more transparent and accessible to citizens. As part of its request for fast track we urge the Administration to commit to broaden citizen access to trade and investment dispute procedures and documents.

Greater Accountability Throughout Negotiations: In exchange for fast track authority to negotiate delicate compromises among parties, the Administration agrees to consult with Congress and keep it informed of the progress of negotiations. Outcomes of recent trade and investment negotiations suggest that more accountability is needed. Any fast track authority should include the addition of congressional committees with environmental responsibility to the list of those committees having jurisdiction over trade and investment bills subject to fast track. Multiple committee jurisdiction would increase congressional and public oversight over negotiations, and help the Administration to communicate effectively the basis for trade policy and its objectives. In addition, routine public meetings convened throughout the United States would expand avenues for citizen input, and promote broader understanding of U.S. trade negotiation priorities. Negotiated drafts should be made public to promote greater transparency in negotiations, and to assist the Administration in its effort to broaden public understanding of its trade negotiation objectives. Finally, fast track authorization could also expand the number of environmental, consumer and public health advisors who serve as members of the USTR's private advisory committees.

Strengthen Role of Environmental Agencies in Trade Negotiations: We also ask that fast track authorization strengthen the role of environmental agencies in trade policy negotiations. Steps must be taken to remove inter-agency communications obstacles, and ensure that environmental officials are given adequate time and resources to engage as full members of the U.S. negotiating team. For example, we believe that the EPA should co-chair the U.S. delegation to the WTO's Committee on Trade and the Environment. In general, we encourage better coordination between EPA and other agencies involved in trade and investment negotiations. To help make this happen, both the EPA and the USTR will need to devote greater resources to issues where trade and environmental policies intersect.

We also believe that environmental impact assessments (EIA) should become standard operating practice for both governments and businesses engaged in international commerce. EIAs for trade and investment agreements, prepared by the Environmental Protection Agency, the National Oceanic and Atmospheric Administration, the Secretary of the Interior, and the Council on Environmental Quality, should become mandatory. To eliminate suspicions surrounding the timing, scope and nature of environmental assessments, we recommend that the USTR work with environmental agencies and the interested public to issue regulations prescribing the process and contents of EIAs for trade agreements. Such rules should require that assessments be prepared early enough in negotiations to guarantee timely public disclosure, to provide adequate time for public comments, to assess outcomes of potential alternatives, and to enable negotiators to take into account the analysis produced. A final EIA would be submitted to Congress as part of the supporting statements.

It is our belief that private businesses engaged in international trade and investment should also be required to conduct individual environmental assessments. Such reports, made available to the public, helps citizens stay informed of the implications for environmental quality posed by prospective investments or business operations. Public disclosure helps broaden understanding between industry and communities of the steps taken to protect the environment, and enables citizens to play a more central role in determining the economic direction for their communities. We look to the Administration to promote more cooperative business-community relations by including first steps toward this recommendation in their request for fast track.

Parallel Negotiations

Trade negotiations can create the political opportunity to negotiate additional, complementary agreements designed to address the broader social and environmental implications of regional economic integration. Negotiating such agreements helps stakeholders play a more active role in determining the economic and environmental futures of their communities. To realize such parallel goals, however, these negotiations must be linked to the trade agreement itself and to US congressional action. As part of any trade negotiations in the Western Hemisphere, we therefore ask the Administration to commit to negotiate, and to submit as part of any trade legislation presented to Congress, the following parallel agreements:

Appropriate Extension of the North American Commission for Environmental Cooperation (CEC): Contrary to popular opinion, we believe that the CEC's performance over the past three years merits our support. The recently released inventory of toxic release data in North America, programs such as the protection of the marine environment from land-based activities and study of the long-range transport of air pollution in North America, offer concrete evidence of the CEC's ability to develop solutions to trans-boundary environmental problems. We urge the Administration to use trade and investment negotiations as an opportunity to extend the concept of the CEC to include the entire Western Hemisphere.

Western Hemisphere Sustainable Development Commission: The BECC and NADBank were negotiated to provide Mexico-U.S. border residents with the power to propose and finance environmental infrastructure projects in a manner consistent with their own visions for sustainable development. The Inter-American Development Bank (IADB) already exists as a financing mechanism for the hemisphere, but its mandate to finance primarily government-sponsored development projects, and its spotty record of citizen participation have left some affected citizens angered by the IADB's performance. The WHSDC would act in a "BECC-like" fashion by working with community residents to develop financially feasible projects designed to address the broader implications of economic integration. Approved projects would then become part of the IADB's loan portfolio.

The National Wildlife Federation believes that trade liberalization can be an important part of national and international efforts to promote sustainable development. Properly constructed trade and investment agreements, and parallel environmental agreements dedicated to addressing the broader implications of economic integration, enable peoples in all countries to benefit from expanding wealth and responsible resource use. We urge you to create a negotiation process that deals effectively with trade-related environmental concerns and advances the goal of long term sustainable development.

Sincerely,

John J. Audley
Program Coordinator for Trade and the Environment

cc: Mr. Robert T. Novick, Esq. Counselor to the United States Trade Representative, Executive Office of the President

Chairman CRANE. Thank you.
And next is Mr. Mohatarem.

STATEMENT OF G. MUSTAFA MOHATAREM, CHIEF ECONOMIST, GENERAL MOTORS CORP., DETROIT, MICHIGAN

Mr. MOHATAREM. Thank you, Mr. Chairman and Members of the Subcommittee. My name is Mustafa Mohatarem. I'm chief economist for General Motors Corp. I welcome the chance to be here today on behalf of General Motors to discuss the positive impact of the North American Free Trade Agreement on GM, its employees, and customers, and to state GM's strong support for granting fast track trade negotiating authority to the President.

GM was an early and strong supporter of NAFTA. NAFTA promised to deliver more rapid economic growth, improve living standards, increase prosperity, and an increase in higher paying jobs. It also carried with it the prospect of enhanced cooperation and goodwill among the United States, Mexico, and Canada.

Although NAFTA will not be fully implemented for another 12 years, it is already living up to these promises. The United States auto industry has long benefited from free trade with Canada, but prior to NAFTA, Mexico's market was effectively closed to exports of autos from the United States. In 1993, the year before NAFTA went into effect, GM's vehicle exports to Mexico from the United States were close to zero. In 1996 GM exported over 32,000 units valued at $650 million to Mexico from the United States, and we expect that number to double this year.

This increase in exports from the United States augmented our product line in Mexico and was a major factor in GM becoming the largest seller of vehicles in Mexico for the first time in their 70-year history in that country. What is truly remarkable is that this increase in exports has occurred in the face of one of the deepest recessions in Mexican history. We expect United States exports to rise even more as Mexico's economy recovers. Indeed, Mexico is rebounding far more quickly and strongly than anyone could have imagined. Clearly, Mexico's decision to honor its NAFTA commitment, despite the plunge in domestic demand, ultimately served to accelerate recovery.

I want to emphasize that, prior to NAFTA, GM, along with Ford and Chrysler, all had assembly operations in Mexico that served the United States and Mexican markets. Although exports from these facilities have increased since the effective date of NAFTA, the driving force for this change is not NAFTA, but the high demand for vehicles in the strong U.S. economy.

Indeed, contrary to the fears of NAFTA opponents, employment in the United States auto industry has increased by 110,000 between 1993 and 1996. The enormous increase in high-productivity, high-wage jobs in the U.S. auto industry is quite significant when one considers the competitive pressures on automakers to do more with less. The globalization of the U.S. motor vehicle industry has forced GM and other U.S. auto producers to rationalize operations in order to compete with competitors from around the world. NAFTA has been an important force in facilitating the necessary rationalization.

For example, because of GM's increased ability to import vehicles into Mexico, GM has been able to reduce the number of models produced in Mexico to achieve better economies of scale. At the same time, we are better able to coordinate the production in all three NAFTA countries to achieve more level production scheduling. This helps overall competitiveness, which in turn benefits our workers and other GM stockholders.

Certainly, enhanced competitiveness is the best way to assure high-wage jobs, and one important measure of competitiveness is whether the company exports or not. In this context, it is important to note that on the average, wages in U.S. companies that export tend to be 10 to 15 percent higher than wages in nonexporting companies. That is certainly true for the U.S. motor vehicle industry, which in the face of growing international competition has been able to offer employees higher wages. Wages of the industry increased 74 percent above the average increase for the U.S. private sector over the last 3 years.

Unfortunately, it is difficult to completely sort out the pure effects of NAFTA from the positive effects of a strong United States economy, especially because trade between the United States and Mexico is such a small percentage of the U.S. economy. But I believe few would argue with the proposition that open markets of the United States created by NAFTA and other trade agreements have allowed the Federal Government to pursue a more rapid rate of economic growth and job creation than otherwise would have been the case.

Also, given the worldwide trend toward the liberalization of trade, the U.S. cannot afford to sit on the sidelines as other nations forge preferential trading arrangements. On our continent, both Mexico and Canada have completed free trade pacts with Chile. This makes it increasingly more cost effective for GM to export vehicles and parts from Mexico or Canada to Chile than from the United States. And now both Mexico and Canada are exploring preferential trading relationships with the MERCOSUR countries, just as the European Union is negotiating session protocols with central Europe.

Although we're convinced that NAFTA promotes the best interest of the United States and the U.S. economy, GM recognizes that change and restructuring can cause temporary, but significant problems and dislocation. We believe the best approach is not to reject NAFTA, but to identify the problems and to turn them into opportunities.

GM, along with a number of motor vehicle and parts companies, is sponsoring an indepth analysis of NAFTA that is being coordinated by the Center for Strategic and International Studies. We hope this analysis will improve our understanding about how NAFTA is impacting the auto sector and what, if any, changes are required to increase NAFTA's benefits for the sector.

But it's also important to recall that NAFTA is more than a trade agreement; it has an expectation that it will improve working between our country, Canada, and Mexico on issues such as national security, immigration, and drugs. And analogous to that, GM is trying to work with all three governments, especially the Mexican Government, on a number of initiatives that will provide broad-based benefits for the communities where we have operations in Mexico.

For example, in 1994 GM entered into a voluntary audit agreement with Mexico's national environmental agency to develop an environmental audit plan to conduct baseline audits of all our Mexican facilities and to develop and implement corrective action plans. The standards utilized themselves are consistent with GM's environmental principles, which are at least as rigorous as those used in our U.S. facilities.

GM also has been experimenting with a variety of GM employee benefit programs for our Mexican employees. For example, under a joint program between Delphi Automotive, our automotive component division, and the Mexican Government, GM is helping qualified employees purchase their own homes. Over the next 6 years, this program will help to build 7,000 homes in six cities for GM employees.

Thus, our assessment of NAFTA is very positive. What's more is the benefits of NAFTA can only be expected to grow in the future. Thus, not only does General Motors continue to be a strong proponent of NAFTA, but we also support its expansion to other hemispheric countries, beginning with Chile. We hope that you'll grant the President the authority to negotiate those agreements.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of G. Mustafa Mohatarem, Chief Economist, General Motors Corp., Detroit, Michigan

Thank you, Mr. Chairman and Members of the Committee. My name is Mustafa Mohatarem. I am Chief Economist, General Motors Corporation. I welcome the chance to be here today on behalf of General Motors to discuss the impact of the North American Free Trade Agreement (NAFTA) on GM, its employees and customers.

• GM was an early and strong supporter of NAFTA. NAFTA promised to deliver more rapid economic growth, improved living standards, increased prosperity, and an increase in higher paying jobs. It also carried with it the prospect for enhanced cooperation and goodwill among the U.S., Mexico and Canada. Although NAFTA will not be fully implemented for another twelve years, it is already living up to these promises.

• The U.S. auto industry has long benefited from free trade with Canada, but prior to NAFTA, Mexicos market was effectively closed to exports of autos from the U.S. In 1993, the year before NAFTAs market opening provisions went into effect, GMs vehicle exports to Mexico from the U.S. were close to zero. In 1996, GM exported over 32,000 units (valued at approximately $650 million) to Mexico from the U.S.—and, we expect that number to double this year. This increase in exports from the U.S. augmented our product line in Mexico, and was a major factor in GM becoming the largest seller of vehicles in Mexico for the first time in our 70-year history in that country.

• What is truly remarkable is that this increase in exports has occurred in the face of one of the deepest recessions in Mexican history. We expect U.S. exports to rise even more as Mexicos economy recovers. Indeed, Mexico is rebounding far more quickly and strongly than anyone could have imagined. Clearly, Mexicos decision to honor its NAFTA commitments despite the plunge in domestic demand ultimately served to accelerate recovery.

• I wish to emphasis that, prior to NAFTA, GM, Ford and Chrysler all had assembly operations in Mexico that served the U.S. and Mexican markets. Although exports from these facilities have increased since the effective date of NAFTA, the driving force for this change was not NAFTA, but the high demand for vehicles in a strong U.S. economy. Indeed, contrary to fears expressed by NAFTA opponents, employment in the auto industry has increased by 110,000 between 1993 and 1996.

• This enormous increase in high productivity, high wage jobs in the U.S. auto industry is quite significant when one considers the competitive pressures on automakers to do more with less. The globalization of the U.S. motor vehicle industry has forced GM and other U.S. auto producers to rationalize operations in order to compete with competitors from around the world. NAFTA has been an important force in facilitating this necessary rationalization.

• For example, because of the increased ability to import vehicles into Mexico, GM has been able to reduce the number of models produced in Mexico to achieve better economies of scale. At the same time, we are better able to coordinate the production in all three NAFTA countries to achieve more level production scheduling. This helps overall competitiveness, which, in turn, benefits our workers and other GM stakeholders.

• Certainly, enhanced competitiveness is the best way to assure high-wage jobs. And, one important measure of competitiveness is whether a company exports or not. In this context, it is important to note that on average, wages in U.S. companies that export tend to be 10–15 percent higher than wages in non-exporting companies. That is certainly true for the U.S. motor vehicle industry, which in the face of growing international competition, has been able to offer employees higher wages.

Wages in the industry increased 74% above the average increase for the U.S. private sector.

• Unfortunately, it is difficult to completely sort out the pure effects of NAFTA from the positive effects of a strong U.S. economy, especially because trade between the U.S. and Mexico is such a small percentage of the U.S. economy. But, few would argue with the proposition that open markets in the U.S. created by NAFTA and other trade agreements have allowed the Fed to pursue a more rapid rate of economic growth and job creation than would otherwise been the case.

• Given the worldwide trend toward the liberalization of trade, the U.S. cannot afford to sit on the sidelines as other nations forge preferential trading arrangements. On our continent, both Mexico and Canada have completed free trade pacts with Chile. This makes it increasingly more cost-effective for GM to export vehicles and parts from Mexico or Canada to Chile than from the U.S. And, both Mexico and Canada are currently exploring preferential trading relationships with the Mercosur countries, just as the European Union is negotiating accession protocols with Central Europe.

• Although we are convinced that NAFTA promotes the best interests of the U.S. and the U.S. economy, GM recognizes that change and restructuring can cause temporary, but significant problems and dislocations. We believe the best approach is not to reject NAFTA, but to identify the problems and to turn them into opportunities. GM, along with a number of other motor vehicle and parts companies, is sponsoring an in-depth analysis of NAFTA that is being coordinated by the Center for Strategic and International Studies. We hope this analysis will improve our understanding about how NAFTA is impacting the auto sector and, what if any changes are required, to increase NAFTAs benefits for the sector.

• In evaluating NAFTA, we need to remember that cooperation on trade matters makes it much easier for us to work together with other countries on non-economic matters, such as national security, immigration and drugs. At GM, we are working with the Mexican government on a number of initiatives that we hope will provide broad-based benefits for the communities where we have operations in Mexico.

• For example, in 1994, GM entered into a voluntary audit agreement with the Mexicos national environmental agency (then named SEDESOL, now called SEMARNAP) to develop an environmental audit plan, to conduct baseline audits in all of our Mexican facilities and to develop and implement corrective action plans. The scope of the project was broad, going beyond a traditional environmental focus to include health and safety, facilities engineering and security issues, and industrial hygiene. Considerable time and effort have gone into this project. The results have been very positive. The standards themselves are at least as rigorous as those used in our U.S. facilities.

GM has also been experimenting with a variety of new employee benefit programs for our Mexican employees. For example, under a joint program between Delphi Automotive, our automotive components division, and the Mexican government, GM is helping qualified employees purchase their own homes. Over the next six years, this program will help to build 7,000 homes in six cities for GM employees.

Our assessment of NAFTA is very positive. Whats more, the benefits of NAFTA can only be expected to grow in the future. Thus, not only does General Motors continue to be a strong proponent of NAFTA, but we also support its expansion to other hemispheric countries, beginning with Chile.

Chairman CRANE. Thank you all for your testimony.

Mr. Mohatarem, the UAW contends that, since NAFTA, it has led to a massive loss of jobs. And yet the Bureau of Labor Statistics says that, since NAFTA, employment in motor vehicles has increased by 12.2 percent; employment in automotive parts has increased by 16.1 percent; and total employment in the auto industry has increased by 14.1 percent. Do you have any understanding as to why the UAW would contradict the Bureau of Labor Statistics on their assessment of NAFTA?

Mr. MOHATAREM. Mr. Chairman, I believe the UAW will be testifying later, and I'll let them answer. But, as I said, the industry on net has added 110,000 jobs in the last 3 years.

Chairman CRANE. Well, that's my understanding, and I'm puzzled by those claims.

Mr. Van Putten, I want to put the same question to you that I put to Mr. Sweeney, and that is, Why were a majority of the dispute settlement cases taken up under the environmental side agreement of NAFTA filed against the United States and Canada instead of against Mexico?

Mr. VAN PUTTEN. Mr. Chairman, based on our experience with the CEC, I would speculate that the reasons are, first of all, there is a greater tradition in the United States and Canada of citizen activism to protect the quality of the environment. So there was earlier and greater perception of the opportunities, as I related. Based on our experience and working session on this in Arizona, we believe the Mexican citizens are waking up to that opportunity.

Second, I believe there was perhaps a view that if the earliest and most aggressive uses of that mechanism appeared to target Mexico, it would make Mexico and other countries in the future less willing to participate in those institutions; that it was viewed as a long-term mechanism that needed to work.

Third, the United States and Canada may have deserved some of those petitions. The CEC's recent release information on toxic releases indicated that the Providence of Ontario was the worst violator in terms of toxic emissions. I don't think we ought to suppose that the petitions that were filed were not well founded and didn't raise important and credible concerns.

Chairman CRANE. Thank you very much.

Mr. English.

Mr. ENGLISH. Thank you, Mr. Chairman.

Mr. Van Putten, I was taken by your testimony. I think you touched on an issue that has concerned me very much about the administration's NAFTA report, and that is the effectiveness of the Commission for Environmental Cooperation, the result of the environmental side agreement that was supposed to be a significant part of the NAFTA, and as I understand it, was the proximate cause of your organization actively supporting NAFTA several years ago, before I came to Congress.

May I ask, what are the problems you see currently with the Commission for Environmental Cooperation? Is there any way those structural problems can be corrected?

Mr. VAN PUTTEN. Congressman English, you are correct that the commitment to the CEC was a very important component, and the parallel agreement was an important element of NWF's desire to aggressively support NAFTA.

Our experience with the CEC—and in my prior role up to 1 year ago, as the director for 14 years of NWF's Great Lakes operations, I had personal involvement with the CEC—our view is, first of all, creating a new institution like that, there's a learning curve, and much of what we saw we think was just getting its priorities straight, developing a work plan, assembling staff, and all of those things one expects to see associated with a new institution.

Second—and we have communicated this often and forcefully—we have been disappointed in the lack of the administration's attention to the CEC and the lack of consistent and high-level participation by the administration and the United States in the CEC and helping to make it work. We believe, based on some recent conversations, that there may be an increase and heightened attentiveness to the CEC, and we certainly welcome that.

Third, I believe there was some sorting out of the role of the CEC vis-a-vis other and existing institutions, and the one that I was most personally familiar with was the International Joint Commission which exists to deal with Great Lakes issues between the United States and Canada, and there was a significant amount of sorting out how does the CEC relate to that institution. I cannot speak from personal experience in terms of Mexico, but I would offer those as three reasons.

Mr. ENGLISH. One of the major concerns going into NAFTA, that NAFTA had presumably hoped to provide progress toward addressing, was the problem of waste coming out of the maquiladora facilities along our border. At the time NAFTA passed, the bulk of the waste being generated by those facilities was not being tracked; we don't know where it was going. Are you confident that there has been significant progress by Mexico in addressing those problems, in tracking the waste, and in investing in facilities along the border that are improving the environment?

Mr. VAN PUTTEN. Congressman, I cannot speak limited to just Mexico. I would point out, as we addressed in the written testimony, that we believe the BECC, in certifying 16 infrastructure projects and NADBank in funding 4 of them, that we have begun to use that mechanism to address some of these infrastructure issues.

Second, the issue of tracking and sharing information is a critical one. It is a means to empower citizens to know about environmental conditions, and if they know about them, they can act to solve them. And we believe that the CEC, in particular, and the reports and the 11 investigations they've commenced so far, has begun to serve that role of assembling and releasing information.

Mr. ENGLISH. My last question, Mr. Van Putten, is a more general one, but is very central to me and my attitude toward not so much NAFTA, but future trade negotiations. I realize it has been a stated priority of many in the environmental movement and many in the labor movement that there be some sort of upward harmonization of laws and of enforcement of laws in a number of different areas, so that there is a level playingfield for American versus other foreign products in competing in the marketplace.

We all know that environmental enforcement has substantial costs attached to it. My concern in the context of fast track is a broad-based fast track that would embrace environmental and labor concerns might create an opportunity of harmonization that would not necessarily be upward from our perspective.

Has your organization considered the potential danger of downward harmonization through a fast track process, and do you think that is a legitimate concern?

Mr. VAN PUTTEN. Congressman, we are concerned about that phenomenon, and in my written testimony we identify three instances subsequent to NAFTA where we are concerned that U.S. laws have come under that sort of pressure.

We believe in the potential of free trade to be a very effective tool to enhance environmental protection, but we don't think that that can happen based only on promises that in the sweet by-and-by we will address those concerns. We believe they are central to trade agreements, and that specific negotiating objectives would make that clear from the U.S. perspective, that those issues are on the table not only in that defensive way, but in the proactive way of using trade to improve the quality of the environment in our trading partners' countries.

Mr. ENGLISH. Thank you. And, Mr. Chairman, thank you for the opportunity.

Chairman CRANE. Well, again, we want to express appreciation to all of you for your testimony before the Subcommittee today, and we look forward to maintaining ongoing contact and communication with you. Please contact us, and vice versa, because we rely upon the insights that you people have in terms of the consequences of the actions that we take here. And, once more, I thank you.

And with that, I'd like to introduce the next panel of witnesses, and we will begin with Bob Stallman, president of the Texas Farm Bureau; Jerry King, president of the National Pork Producers Council; Janet Nuzum, vice president and counsel to the International Dairy Foods Association; and Larry Martin, president of the American Apparel Manufacturers Association.

And, again, I'd like to remind all witnesses to try and confine their oral presentations to 5 minutes, and to reassure you that all written testimony will be inserted into the record.

And with that, we shall commence with Mr. Stallman.

STATEMENT OF BOB STALLMAN, PRESIDENT, TEXAS FARM BUREAU; ON BEHALF OF AMERICAN FARM BUREAU FEDERATION

Mr. STALLMAN. Thank you, Mr. Chairman and Members of the Subcommittee. I am Bob Stallman, president of the Texas Farm Bureau, and I'm here today representing the American Farm Bureau Federation. I want to thank you for this opportunity to testify concerning the status of NAFTA with Canada and Mexico.

The American Farm Bureau represents 4.7 million members in the United States and Puerto Rico. Our members produce every type of farm commodity that is grown in America.

At the time NAFTA was implemented in 1994, Farm Bureau was one of its strongest supporters. Even today, we continue to believe that higher living standards around the world depend upon mutually beneficial trade among nations. But this transition to higher living standards has been a bit bumpy as far as NAFTA is concerned. Our members generally agree that free trade is the ultimate goal, but believe that fair two-way trade without undue barriers must be the immediate goal. With this caveat in mind, the facts and figures still lead to the conclusion that NAFTA ultimately has been a success for all three trading partners: The United States, Canada, and Mexico.

The Farm Bureau cosponsored the Promar International report, "U.S. Agricultural Export Experience With NAFTA Partners," which has been submitted for the record. This report provides an objective look at the impacts of NAFTA on agriculture. Also included in the submitted testimony are recent USDA figures concerning this accord. These reports reveal that NAFTA can and should be the success that each of us desires.

These numbers show that United States agricultural trade with both Mexico and Canada has increased since the implementation of NAFTA. However, the devaluation of the Mexican peso has made United States goods more expensive in Mexico and Mexican goods less expensive in the United States. Thus, a significant 1994 United States agricultural trade surplus with Mexico vanished during 1995, but has strengthened again in 1996 and 1997 as the Mexican economy has shown renewed signs of growth.

The NAFTA guaranteed movement of exports to Mexico during the peso devaluation. The agreement precluded Mexico from stopping all imports to protect its foreign currency base. Trade continued through even the lowest peso level, and now with a more stable peso, the United States is again running an agricultural trade surplus with Mexico.

Now for a couple of the bumpy spots. Mexican tomatoes entered the United States at record levels during 1996. For the 8-month period, imported Mexican tomatoes measured in dollars were up almost to 70 percent. This situation caused severe problems for Florida tomato farmers, but the situation was believed to be solved through negotiations between our growers and Mexico. However, it appears that the suspension agreement is not being enforced and Mexican tomatoes are again disrupting the market.

Being from Texas, we had a massive influx of cattle after the implementation of the NAFTA after 1994, but that was based on the devaluation of the peso and also a drought in the cattle-producing areas. This created some consternation with NAFTA, but it was misplaced because NAFTA had nothing to do with this particular influx of cattle into the United States.

The United States ran a positive, but narrowing, agricultural trade surplus with Canada until last year. For both 1996 and 1997, we expect to run a slight agricultural trade deficit with Canada. A portion of this deficit relates to the fact that Canada continues to help its dairy and poultry industries outside the terms of the agreement and places very high tariffs on our dairy and poultry commodities, limiting our exports to Canada. Canada also continues to supply-manage its grain used in the Canadian Wheat Board. Canada may be living up to the letter of the NAFTA, but not the full spirit of more open markets. We must find a way to address these issues with the Canadians. Still, our exports to Canada have continued to rise under NAFTA.

Mr. Chairman, NAFTA has been good for agriculture as a whole, although adjustments are needed for some sectors. The Farm Bureau believes that negotiating and modifying existing trade agreements and establishing new agreements is critical to the competitiveness of U.S. agriculture. The ability to expand existing markets and open new markets will dictate the future of our industry and the well-being of the Nation.

Let's look at some of the reasons why trade and good trade agreements are critical to agriculture. One, the well-being of U.S. agriculture is tied to competitiveness in global markets. U.S. agricultural exports have more than doubled from 29 billion in 1984 to 60 billion in 1996. Much of this growth has been attributed to efforts to open markets through trade agreements and multilateral trade negotiations.

Two, good trade agreements are critical to opening markets. In a world where over 95 percent of the world's consumers live outside of the United States, and where U.S. agriculture already depends on exports for one-third of all sales, we must have new and expanded markets.

Three, commercial competitiveness is critical to our position of global leadership. Canada, China, Japan, and the others are forging preferential commercial alliances with emerging markets which put American exports at a disadvantage.

Four, exports create American jobs. Today more than 11 million American jobs are supported by exports.

And, five, with respect to agriculture specifically, the next round of talks in the World Trade Organization is to begin in 1999. American agriculture must be in a position to lead the renegotiation of the Uruguay round General Agreement on Tariffs and Trade for Agriculture. Some issues of importance in this Round include increased market access, resolution of state trading issues, greater transparency between trading partners, greater adherence to sound science in resolving sanitary and phytosanitary issues, rules of origin, export subsidies, internal support schemes disguised as environmental payments, and clearly defined trade in genetically modified organisms. Negotiations to cut trade barriers in the $526 billion global agricultural market will define the structure of American agriculture for the next decade.

We are looking forward to the President's request for fast track authority, and we'll take a very careful look at this request to see that it meets the industry's needs. As you are aware, Farm Bureau is working with the administration and Congress to address specific issues of concern to the Farm Bureau before committing to full support for fast track authority. These issues include: One, language in the legislation that would require the administration to address the issues of tariff equalization and increasing market access or requiring U.S. trading partners to eliminate tariff barriers within specified timeframes; two, language in the legislation that binds the trading partners to resolving sanitary and phytosanitary disputes on the basis of sound science; and, three, securing actions by the administration and Congress that would lead to changes in international agreements and U.S. laws and practices that would facilitate and shorten dispute resolution procedures and processes, especially in issues involving perishable products. This would include changes in international agreements and U.S. law which would redefine a crop or growing season.

Mr. Chairman, the U.S. market is already open; others are not. It's important that we work to get those other markets open to U.S. agricultural products.

Thank you for holding this hearing, and we look forward to working with you and the Subcommittee to implement strong trade agreements.

[The prepared statement follows:]

Statement of Bob Stallman, President, Texas Farm Bureau; on Behalf of American Farm Bureau Federation

Mr. Chairman and members of the Committee, I am Bob Stallman, president of the Texas Farm Bureau. I am here today representing the American Farm Bureau Federation as well as the Texas Farm Bureau. I want to thank you for this opportunity to testify concerning the status of the North American Free Trade Agreement (NAFTA) with Canada and Mexico. The American Farm Bureau represents 4.7 million member families in the United States and Puerto Rico. Our members produce every type of farm commodity grown in America.

NAFTA, as you know, was implemented on January 1, 1994. At that time, Farm Bureau was one of its strongest supporters. Even today we continue to believe that higher living standards around the world depend upon mutually beneficial trade among nations. But, this transition to higher living standards has been a bit bumpy as far as NAFTA is concerned. Our members generally agree that free trade is the ultimate goal, but believe that fair two-way trade without undue barriers must be the goal.

With this caveat in mind, the facts and figures still lead to the conclusion that NAFTA ultimately has been a success for all three trading partners, the United States, Canada and Mexico.

Farm Bureau co-sponsored the Promar International report, "U.S. Agricultural Export Experience with NAFTA Partners," which has been submitted for the record. This report provides an objective look at the impacts of NAFTA on agriculture.

Also included in this testimony are recent USDA figures concerning this accord. These reports reveal that NAFTA can and should be the success that each of us desires.

TABLE 1—U.S. Agricultural Trade with NAFTA Countries

[Billions of $]

	1994	1995	1996	1997
Exports to Mexico	4.1	3.7	5.0	5.5
Imports from Mexico	2.8	3.7	3.8	3.8
Trade Balance	1.3	0.0	1.2	1.7
Exports to Canada	5.3	5.8	6.0	6.5
Imports from Canada	5.2	5.4	6.5	6.9
Trade Balance	0.1	0.4	(0.5)	(0.4)

As you can see, U.S. agricultural trade with both Mexico and Canada has increased since the implementation of NAFTA. However, the devaluation of the Mexican peso has made U.S. goods more expensive in Mexico and Mexican goods less expensive in the United States. Thus, a significant 1994 U.S. agriculture trade surplus with Mexico vanished during 1995—but has strengthened again in 1996 and 1997 as the Mexican economy has shown renewed signs of growth.

The NAFTA agreement guaranteed movement of exports to Mexico during the peso devaluation. The agreement precluded Mexico from stopping all imports to protect its foreign currency base. Trade continued through even the lowest peso levels.

Now, with a more stable peso, the United States is again running an agriculture trade surplus with Mexico. This surplus is expected to continue during 1997. In fact, our agriculture exports to Mexico are expected to reach a record $5.5 billion this year.

The most recent numbers indicate that the Mexican economy is beginning to show signs of added strength. U.S. agriculture exports to Mexico reached $5 billion in fiscal 1996, led by increased purchases of corn, wheat, soybeans and cotton. This is an increase of $900 million from fiscal 1994—prior to the devaluation. A more stable, but still cheaper, peso has helped turn around this trade situation.

Fiscal year-to-date figures for October 1996 through May 1997 reveal this recovery and indicate that U.S. exports to Mexico rose in excess of 35 percent since October of 1995. Bulk commodities have led this increase in exports. The following table compares this recovery with Mexico by commodity.

TABLE 2—U.S. Agricultural Trade with Mexico

[$ Millions]

	Oct–May FY 1995	Oct–May FY 1997	% Change 2 Yr Period
Exports to Mexico	2,479	3,380	36%
Coarse Grains	447	852	90%
Soybeans	202	550	172%
Cotton	136	172	26%
Wheat	92	155	68%
Imports From Mexico	2,840	2,922	3%
Vegetables	993	988	0%
Fresh Fruit	265	293	11%
Processed Fruit	199	214	8%
Cattle	448	123	(73)%
Coffee	60	78	30%

Mexican tomatoes entered the United States at record levels during 1996. For the eight-month period, imported Mexican tomatoes (measured in dollars) were up almost 70 percent. This situation caused severe problems for Florida tomato farmers. But, the situation was believed to be solved through negotiations between our growers and Mexico. However, it appears that the suspension agreement is not being enforced and Mexican tomatoes are again disrupting the market. Currency fluctuations directly impacted this change in product movement.

The data also indicate that cattle imports from Mexico lessened during the recovery. A 1994 drought in northern Mexico forced a massive liquidation of their herds with many of those cattle moving through U.S. feedlots thus, increasing imports to the United States. This situation turned around during the recovery. For the eight months (October-May) this year versus two years ago, cattle from Mexico to the United States (also in dollars) were down over 73 percent. In this case a weather problem led to big changes in trade, not NAFTA.

The United States ran a positive, but narrowing, agriculture trade surplus with Canada until last year. For both 1996 and 1997, we expect to run a slight agriculture trade deficit with Canada. A portion of this deficit relates to the fact that Canada continues to help its dairy and poultry industries outside the terms of the agreement and places very high tariffs on our dairy and poultry commodities, limiting our exports to Canada. Canada also continues to “supply manage” its grains using the Canadian Wheat Board. Canada may be living up to the letter of the NAFTA agreement but not the full spirit of more open markets. We must find a way to address these issues with the Canadians. Still, our exports to Canada have continued to rise under NAFTA.

According to a recent USDA report, the United States and Canada historically “share a common interest in agriculture and in agricultural trade.” To verify this fact, the U.S. and Canada implemented the Canada Free Trade Agreement (CFTA) on January 1, 1989, to eliminate tariff and non-tariff barriers to trade over a 10-year period. This agreement was subsequently incorporated into NAFTA, with the exemption of the supply managed agricultural commodities that are causing trade distortions in dairy, poultry and grains.

Since these accords were signed, however, bilateral trade has steadily progressed. By 1997, U.S. agriculture exports to Canada have risen to an estimated $6.5 billion, an increase of more than $2.5 billion from pre-CFTA days. Fruits and vegetables led the way, accounting for more than 35 percent of U.S. agriculture exports to Canada. In addition, the United States remains Canada’s largest export market. During 1995, about half of Canada’s agriculture exports were to the United States.

This year, U.S. exports to Canada and Canadian imports to the United States are both above $6 billion. However, trade problems still exist between our two countries in the area of wheat, barley, beef, poultry, dairy and potatoes. A NAFTA dispute panel ruled last year in favor of Canada in the dairy and poultry dispute. Thus, the United States still has some concerns about Canada’s high border tariffs and the future monitoring and enforcing of our signed agreements.

Mr. Chairman, NAFTA has been good for agriculture as a whole although adjustments are needed for some sectors. Farm Bureau believes that negotiating and modifying existing trade agreements and establishing new agreements is critical to the competitiveness of U.S. agriculture.

The ability to expand existing markets and open new markets will dictate the future of our industry and the well-being of the nation. Let us look at some reasons why trade and good trade agreements are critical to agriculture.

The well-being of US agriculture is tied to competitiveness in global markets. U.S. agricultural exports have more than doubled from $29 billion in 1984 to $60 billion in 1996. Much of this growth has been attributed to efforts to open markets through trade agreements and multilateral trade negotiations, increasing per capita income in the rest of the world, production shortfalls in key regions, a weaker U.S. dollar and greater exports of value-added products. To guarantee the continuation of this trend, market expansion must be allowed to continue.

Good trade agreements are critical to opening markets The rapidly expanding global economy presents enormous opportunities for farm families and agribusinesses. In a world where over 95 percent of the world's consumers live outside of the United States, and where U.S. agriculture already depends on exports for one third of all sales, we must have new and expanded markets.

Commercial competitiveness is critical to our position of global leadership. Europe, Canada, China, Japan and others are forging preferential commercial alliances with emerging markets, which put American exports at a disadvantage. Those trade alliances also play a vital role in defining strategic relationships between countries and regions.

Exports create American jobs. Today, more than 11 million American jobs are supported by exports, including one in every five manufacturing jobs—good jobs, paying 13–16 percent more than non-trade related jobs. Over the last four years, one quarter of our economic growth came from trade—exports created 1.4 million new jobs. Agriculture depends on exports for one-third of all sales. If we are to raise our standard of living, we must continue creating jobs through exports.

Agriculture: The next round of talks in the World Trade Organization are to begin in 1999. American agriculture must be in position to lead the renegotiation of the Uruguay Round General Agreement on Tariffs and Trade for agriculture. Some issues of importance in this round include: increased market access; resolution of state trading issues; greater transparency between trading partners; greater adherence to sound science in resolving sanitary and phytosanitary issues; rules of origin; export subsidies; internal support schemes disguised as environmental payments; clearly defined trade in genetically modified organisms and an overall trade in products of biotechnology based on sound science. Negotiations to cut trade barriers in the $526 billion global agriculture market will define the structure of American agriculture for the next decade.

Global negotiations will address other key areas such as intellectual property rights, customs and government procurement rules which will not only affect agriculture, but also the overall soundness of our economy.

Sectoral Agreements: Negotiating authority would be used to negotiate industry sectors where the U.S. is most competitive. Barriers must be reduced in areas like environmental technology, biotechnology, medical equipment and computer software, areas where America leads the world.

Regional Trade Agreements: Continuing regional initiatives presents vast opportunities, and keeps the U.S. on a competitive basis with our neighbors and trading partners who, in some cases, have moved forward with agreements that would be disadvantageous to the U.S.

Latin America and the Caribbean: This area was the fastest growing market for U.S. exports in 1996. If trends continue, Latin America and the Caribbean will exceed the EU as a destination for U.S. exports by 2000 and exceed Japan and the EU combined by 2010.

Asia: Contains the fastest growing economies in the world, with nearly 3 billion people. Independent forecasters put 1996 GDP for the region at $2.8 trillion and expect real growth of 6 to 7 percent annually for the next 15 years.

NAFTA is just one step in opening doors for U.S. trade. The administration tells us that with over 30 regional and bi-lateral agreements made over the past four years, the United States is only a signatory to one. That one is NAFTA. Other countries are forging ahead while the administration has not had the authority to negotiate new or renegotiate existing trade agreements.

Other countries are breaking down barriers for their producers. Since 1992, our competitors have negotiated 20 regional trade pacts without us. In every region of the world, this process continues. MERCOSUR is a developing customs union with ambitions to expand to all of South America; the EU has begun a process to reach free trade with MERCOSUR; China's "strategic priorities" include Mexico, Argentina, Brazil, Chile, and Venezuela; Japan has undertaken high-level efforts in Asia and Latin America.

Canada has reached a trade agreement with Chile that will provide an 11 percent tariff reduction on Canadian products. Every time an American company competes to sell to Chile, it will face an immediate 11 percent disadvantage vis-a-vis its Canadian competitors. Canada also negotiated to exempt its supply managed dairy and poultry sectors from the agreement, allowing it to at any time in the future impose tariffs similar to those keeping U.S. dairy and poultry products out. This sets a very bad precedent for Canada to use during the 1999 WTO negotiations for exempting sectors of the industry.

We are looking forward to the President's request for fast track authority. We will take a very careful look at this request to see that it meets the industry's needs. Farm Bureau fully recognizes that the United States must be in a position of leadership as trade negotiations move forward. Our negotiators must be in a position to renegotiate and expand some sections of NAFTA and to take the lead on bilateral and regional agreements. As we get closer to 1999 and the renegotiation of the agriculture agreement in the World Trade Organization, our friendly trading partners are expecting the U.S. to take the lead in these renegotiations.

As you are aware, Farm Bureau is working with the administration and Congress to address specific issues of concern to Farm Bureau before committing to full support for fast track authority. These issues include:

(1) Language in the legislation that would require the administration to address the issues of tariff equalization and increasing market access by requiring U.S. trading partners to eliminate tariff barriers within specified time frames;

(2) Language in the legislation that binds the trading partners to resolving sanitary and phyto-sanitary disputes on the basis of sound science; and

(3) Securing actions by the administration and Congress that would lead to changes in international agreements and U. S. laws and practices that would facilitate and shorten dispute resolution procedures and processes especially in issues involving perishable products. This would include changes in international agreements and U.S. law which would redefine a crop or growing season.

We believe that at least the first two issues can be addressed in fast track legislation and that the administration and Congress must take concrete actions to move forward on the third.

The following statement is taken directly from the 1988 fast track legislation and should remain as part of the United States trade negotiating objective for the future:

The overall trade negotiating objectives of the United States are to obtain—(1) more open, equitable, and reciprocal market access; (2) the reduction or elimination of barriers and other trade-distorting policies and practices; and (3) a more effective system of international trading disciplines and procedures.

During the process of consideration of the expected request for fast track, this language must be strengthened and expanded to include definite goals and timetables that address agriculture's concerns.

NAFTA and all of our trade agreements must be monitored and enforced. The American Farm Bureau Federation has been concerned for some time about the level of attention and commitment by the U.S. Trade Representative's Office (USTR) toward our issues and has called for a deputy ambassador for agriculture. We heartily applaud Ambassador Charlene Barshefsky for her designation of Peter Scher as ambassador for agriculture and an agricultural team at USTR. We believe that there should be a permanent position of deputy ambassador, not one which is at the mercy of personnel changes or changes in administrations. A deputy ambassador for agriculture at USTR and continued close coordination with USDA is critical for successful long-term agriculture trade.

International trade can create a significant market for U.S. agricultural commodities. Agreements like NAFTA must ensure that trade remains both free and fair for all commodities. We need to continue to monitor and enforce these accords to make sure the benefits promised to farmers and ranchers are fully realized and move forward in creating new and stronger markets for all U.S. industries.

Mr. Chairman, the U.S. market is already open. Others are not. The United States is the most open major market in the world. When we reach trade agreements, we give up very little, while other countries give up far more. We must work toward opening up our competitors' markets. We must have the strongest trade agreements possible. Agreements that do not jeopardize our industry for social issues but that move us forward in the global marketplace.

Thank you for holding this hearing and we look forward to working with you to create strong trade agreements.

Chairman CRANE. Thank you, Mr. Stallman.

And before we proceed further, we have one 15-minute vote followed by three 5-minute votes, I've just been informed. And based upon how fast things move over there, if you folks haven't had lunch, you might consider it, because we're going to have to recess for a while. Please, I hope you can hang in there until we reconvene the Subcommittee, but for right now we'll stand in recess, subject to the call of the Chair. The staff can keep track of how fast they're progressing over there and give you an idea of when we will reconvene. And thank you.

[Whereupon, at 2:05 p.m., the Subcommittee recessed for lunch, to reconvene at 3:58 p.m. the same day.]

Chairman CRANE. We'll now reconvene, and our next witness to testify is Mr. King.

STATEMENT OF JERRY KING, PRESIDENT, NATIONAL PORK PRODUCERS COUNCIL

Mr. JERRY KING. Mr. Chairman and Members of the Subcommittee, I'm Jerry King, an Illinois-based pork producer, owner, and general manager of a 2,500-sow operation. I've been raising pork on my family farm since 1960, and I'm currently serving as president of the National Pork Producers Council. I certainly appreciate the opportunity to appear here today on behalf of the U.S. pork producers to express our views on the benefits of NAFTA.

The National Pork Producers Council played an integral role in coordinating a coalition of over 2 dozen U.S. agricultural organizations which funded a report that examines the U.S. experience with agricultural trade under the NAFTA. The author of the study, Martin Able of Promar International, has submitted written testimony to the Subcommittee today with a copy of the NAFTA report.

The study concludes that, on balance, NAFTA has been very good for U.S. agriculture. Pork-specific findings confirm what we have known all along: NAFTA has been great for the U.S. pork industry. Mexico is now the pork industry's second most important market, behind Japan, in terms of value. Even with the devaluation of the peso, U.S. pork increased market share in Mexico. This would not have happened without NAFTA.

United States pork now has over 95 percent of the Mexican pork import market. Further increases in pork exports to the Mexican market are virtually assured as tariff levels are phased down and as the Mexican economy strengthens. We are expecting a surge in Mexican pork consumption in the coming years.

United States pork exports to Canada have increased in both volume and value terms. During the 3-year period of NAFTA, overall United States pork exports to Canada increased 44 percent by volume and 79 percent by value.

Under the United States-Canada free trade agreement, this trend was already underway. In 1996 Canada was the third most significant export market for the United States pork industry in value terms.

Like many other American pork producers, my family has benefited from NAFTA and other trade agreements through strong and growing exports. The boost in exports over the past several years has been fundamental to the economic health of our business. Last year exports boosted the bottom line for all pork producers by adding an estimated $10 per head to cash hog prices.

My family's positive experience with international trade agreements is shared by many others in American agriculture. Research conducted by the Economic Research Service of USDA indicates that for each dollar of value-added agricultural products such as pork, $1.63 in additional U.S. economic activity is generated. Moreover, ERS calculates that every billion dollars in pork exports creates an additional 23,000 new jobs in the U.S. economy.

The continued growth and profitability of U.S. agriculture is inextricably linked to continued trade liberalization through multilateral, regional, and bilateral trade agreements. That's why pork producers are ardent supporters of the renewal of fast track negotiating authority. Yesterday our industry sent 300 producers to Capitol Hill to lead the charge for fast track.

Secretary Glickman has said either we export or we die. I am in total agreement. In the U.S. economy at large, agriculture was the number one positive contributor to the U.S. trade balance in 1996. American agriculture is more than twice as reliant on foreign trade as compared to the U.S. economy as a whole. Simply put, if we don't get fast track renewed, U.S. agriculture will lose billions of dollars in the short term, and in the long run we risk losing our comparative advantage.

The next round of global agricultural trade negotiations is scheduled to begin in 1999. If the United States is not leading the charge in 1999, at best, nothing will happen, which means the U.S. agriculture will lose billions of dollars of potential sales. At worst, the EU and other countries will build momentum for initiatives hostile to U.S. agriculture, such as weakening the sanitary and phytosanitary agreement.

Adequate preparation for and participation in these negotiations require the renewal of fast track authority now. fast track authority is also needed so that the United States can pursue trade liberalization with our Western Hemisphere neighbors and the 18 members of the Asia-Pacific Economic Cooperation Forum.

The U.S. pork industry is disadvantaged by the failure of the United States to keep up with the pace of trade agreements in the Western Hemisphere. The rapidly expanding Brazilian pork industry, a key competitor to the United States industry, now has preferential access into many markets, to the detriment of United States producers. Canada, another significant competitor, has gained preferential access in the Chile market through a free trade agreement.

We thank you, Mr. Chairman, for this opportunity.

[The prepared statement follows:]

Statement of Jerry King, President, National Pork Producers Council

Mr. Chairman and members of the subcommittee:

I am Jerry King, a Victoria, Illinois-based pork producer-owner and general manager of a 2,500 sow farrow-to-finish operation. I have been raising hogs on my family farm since 1958. I am current president of the National Pork Producers Council and I am also a member of NPPC's Board of Directors and Federation Council. I appreciate the opportunity to appear on behalf of U.S. pork producers to express our views on the benefits of NAFTA.

The National Pork Producers Council is a national association representing 44 affiliated states who annually generate approximately $11 billion in farm gate sales. According to a recent Iowa State study conducted by Otto and Lawrence, the U.S. pork industry supports an estimated 600,000 domestic jobs and generates more than $64 billion annually in total economic activity.

With 10,988,850 litters being fed out annually, 1.065 billion bushels of corn valued at $2.558 billion are consumed by U.S. pork producers. Feed supplements and additives represent another $2.522 billion of purchased inputs from U.S. suppliers which help support U.S. soybean prices, the U.S. soybean processing industry, local elevators and transportation services based in rural areas.

Pork is the world's meat of choice. Pork represents 44 percent of daily meat protein intake in the world. Even though there's been a huge global market for pork and pork products, efficient U.S. producers were precluded from exporting significant volumes of pork in the pre-Uruguay Round Agreement, pre-NAFTA era. A combination of foreign market trade barriers and highly subsidized competitors kept a lid on U.S. pork exports. U.S. pork producers were ardent proponents of the Uruguay Round Agreement and NAFTA. The industry strongly supports further trade liberalization measures. These trade agreements permit U.S. pork producers to exploit their comparative advantage in international markets.

Since 1995, when the Uruguay Round Agreement went into effect, U.S. pork exports to the world have increased by approximately 45 percent in volume terms and 75 percent in value terms from 1994 levels. Indeed, the U.S. pork industry exported over one billion dollars of pork for the first time in 1996. Explosive export growth will continue in 1997 and 1998.

Study Demonstrates NAFTA is Great for Pork:

The National Pork Producers Council played an integral role in coordinating a coalition of over two dozen U.S. agricultural organizations which funded a report that examines the U.S. experience with agricultural trade under the NAFTA.

The study concludes that, on balance, NAFTA has been very good for U.S. agriculture. The study illustrates that: NAFTA has been a net gain for U.S. agriculture; U.S. agricultural trade with Canada and Mexico has increased; and that the U.S. has generally had a positive trade balance with both countries. Furthermore, the study indicates that NAFTA has been great for U.S. pork producers.

The study, entitled "U.S. Agricultural and Food Export Experience with NAFTA Partners" was compiled by Promar International, an Alexandria, Va.-based research and consulting firm specializing in food and agriculture. The executive vice president of Promar international, Martin Abel, has submitted written testimony to the subcommittee today with a copy of the NAFTA report.

Pork specific findings confirm what we have known all along; NAFTA has been great for the U.S. pork industry. Mexico is now the pork industry's second most important market behind Japan in terms of value ($92 million in 1996). U.S. pork exports to Mexico exploded in 1994 when NAFTA went into effect. Even with the devaluation of the peso U.S. pork increased market share in Mexico—this wouldn't have happened without NAFTA. U.S. pork now has over 95% of the Mexican pork import market.

Further increases in pork exports to the Mexican market are virtually assured as tariff levels are phased down and as the Mexican economy strengthens. We are expecting a surge in Mexican pork consumption in the coming years. Current pork consumption is down from recent historic levels, but not long ago annual per capita kilograms of pork consumed in Mexico were about 20. That number declined to under 10 kilograms as hog cholera problems, unfortunate policies that basically stopped imports, and economic depression resulted in rising pork prices at a time of declining personal incomes for much of the population.

If the per capita annual consumption of pork in Mexico rebounds only half-way, to 15 kilograms, this would translate into approximately an additional 400,000 metric tons of annual pork demand—an amount just under total U.S. pork exports in 1996.

U.S. pork exports to Canada have increased in both volume and value terms. During the three year period of NAFTA, overall U.S. pork exports to Canada increased 44 percent by volume and 79 percent by value. Under the U.S.-Canada FTA, this trend already was underway. In 1996, Canada was the third most significant export market for the U.S. pork industry in value terms ($77 million).

Canada has served as a critically important source of live hogs for slaughter in the U.S. as the U.S. pork industry expands to keep pace with exploding global demand for pork. In 1996, approximately 15 percent of Canadian market hogs were exported to the United States.

Like many other American pork producers, my family has benefitted from NAFTA and other trade agreements through strong and growing exports. The boost in exports over the past several years has been fundamental to the economic health of our business. Last year exports boosted the bottom line for all pork producers by adding an estimated $10 per head to cash hog prices.

My family's positive experience with international trade agreements is shared by many others in American agriculture. Research conducted by the Economic Research Service (ERS) of USDA indicates that for each dollar of value-added agricultural exports such as pork, $1.63 in additional U.S. economic activity is generated. Moreover, ERS calculates that every billion dollars in pork exports creates an additional 23,000 new jobs in the U.S. economy.

RENEWAL OF FAST-TRACK IS CRITICAL:

As previously indicated, the pork industry and U.S. agriculture has benefitted from the NAFTA. The continued growth and profitability of U.S. agriculture is inextricably linked to continued trade liberalization through multilateral, regional and bilateral trade agreements. That's why pork producers are ardent supporters of the renewal of fast-track negotiating authority. Yesterday, we unleashed 300 producers on Capitol Hill to lead the charge on fast-track.

Secretary Glickman has said "either we export or we die." I couldn't agree more with him. In the U.S. economy at large, agriculture was the number one positive contributor to the U.S. trade balance in 1996 (about a $30 billion surplus). American agriculture is more than twice as reliant on foreign trade as the U.S. economy as a whole, with exports currently accounting for an estimated 30 percent of agriculture's cash receipts. Production from up to a third of U.S. cropland is exported. We have a mature market for pork and other agricultural products in the United States. However, the other 96% of the world, which lives outside our borders, is experiencing rapid economic growth. The first thing that people do when they move up from poverty is upgrade their diets. Simply put, if we don't get fast-track renewed, U.S. agriculture will lose billions of dollars in the short term and in the long run we risk losing our comparative advantage.

The next round of global agricultural trade negotiations is scheduled to begin in 1999. Removing tariff and non-tariff barriers to trade—helping to open new markets and gain increased access to existing markets—is critical for U.S. pork producers. If the United States is not leading the charge in 1999, at best, nothing will happen which means that U.S. agriculture will lose billions of dollars of potential sales. At worst, the EU and other countries will build momentum for initiatives hostile to U.S. agriculture such as weakening the Sanitary and Phytosanitary Agreement. Adequate preparation for and participation in these negotiations require the renewal of fast-track authority now.

Fast-track authority is also needed so that the U.S. can pursue trade liberalization with our western hemisphere neighbors and the 18 member countries of the Asia Pacific Economic Cooperation forum (APEC). The U.S. pork industry is disadvantaged by the failure of the United States to keep up with the pace of trade agreements in the western hemisphere. The rapidly expanding Brazilian pork industry—a key competitor to the U.S. industry—now has preferential access into many markets to the detriment of U.S. producers. Canada, another significant competitor, has gained preferential access into Chile through a free trade agreement. With respect to the APEC nations, these countries will experience the majority of the world's population and income growth in the next 8 to 10 years, passing through the middle ranges of per capita income where the shift in dietary patterns is particularly pronounced. Yet, it is precisely these same countries which lack surplus food producing resources. The Food and Agricultural Policy Research Institute (FAPRI) projects that Chinese pork consumption will increase by over 23 percent, approximately 8 million metric tons, in the next ten years. Pork consumption is forecast to increase rapidly in many of the other APEC nations but, like China, most of these countries place significant restrictions on pork imports.

Chairman CRANE. Thank you.

And our next witness, Janet Nuzum.

STATEMENT OF JANET A. NUZUM, VICE PRESIDENT AND COUNSEL, INTERNATIONAL DAIRY FOODS ASSOCIATION

Ms. NUZUM. Mr. Chairman and Members of the Subcommittee, thank you very much for the opportunity to appear before you today. I am Janet Nuzum, vice president and counsel of the International Dairy Foods Association, the trade association representing over 650 companies involved in the processing, manufacturing, and marketing of all types of dairy products.

IDFA views the NAFTA as providing significant benefits to the United States dairy industry by opening up Mexico's market, our largest foreign customer. Access to Canada's dairy market, unfortunately, was not opened up by NAFTA. So there is still work to be done before we achieve the goal of free trade in North America. In order to continue working on opening foreign markets in Canada and around the world, IDFA urges prompt renewal of fast track negotiating authority.

My full statement goes into some detail on each of these subjects. In the interest of time, however, I will make only a few brief remarks.

The United States is a net exporter of dairy products to both Mexico and Canada. Mexico is the number one foreign market for United States dairy products, and NAFTA opens up that market further for additional opportunities and growth in our dairy exports.

Under NAFTA, Mexican tariffs on dairy products are being eliminated over 10 years, and a tariff rate quota on United States milk powders will be phased out over 15 years. Although aggregate data on our dairy exports to Mexico show declines since 1994, these declines were primarily a function of the peso devaluation and unusual conditions in the United States domestic dairy market in 1996. In the first 5 months of 1997, dairy exports to Mexico were up substantially, 19 percent overall and 167 percent in the second highest product category of fluid milk and cream.

Even more important than aggregate trade levels, however, are the shifts in composition of United States dairy exports to Mexico, away from the historical emphasis on subsidized sales of butter and milk powder and toward increased commercial sales of unsubsidized value-added products such as fluid milk, ice cream, and whey products. This shift toward higher value, unsubsidized trade cannot be overemphasized in its significance.

Finally, it's important to appreciate the change in business climate in Mexico that has come about. The atmosphere in Mexico since the signing of NAFTA has been more open and receptive to doing business with United States companies and United States products. Relationships are easier to develop and problems are easier to solve. These less tangible changes have greatly facilitated increased sales of U.S. dairy products and stronger relationships for future growth.

Unfortunately, the same gains cannot be said with respect to Canada. NAFTA, as well as its predecessor, the United States-Canada FTA, have not effectively improved access to Canada's dairy markets. Last year a NAFTA dispute settlement panel upheld Canada's view that highly restrictive, over-quota tariffs on dairy products were permitted by NAFTA. Consequently, most of

Canada's dairy markets are severely restricted by over quota tariffs as high as 359 percent.

IDFA proposes, as a small step toward freer bilateral dairy trade with Canada, the establishment of a reciprocal dairy reexport program that would grant duty-free, quota-free access to each other's exports of dairy-containing products manufactured from dairy ingredients sourced in the other country. Although this reciprocal program would not open dairy trade between our borders as much as we would like, it would be a step forward toward increasing trade between the United States and Canadian dairy industries.

Finally, IDFA strongly urges Congress to enact fast track negotiating authority in order to continue making progress in eliminating existing trade barriers and trade-distorting practices, as well as preventing new ones from emerging. Strong leadership by the United States is essential, especially in the upcoming WTO negotiations on agriculture. That leadership will only be possible if fast track is renewed.

The future growth and prosperity of the U.S. dairy industry depends greatly on our ability to access foreign markets, particularly those in emerging economies with rising incomes and growing populations. In addition to market access, we must focus on eliminating unfair subsidies. They distort trade and discriminate against efficient, competitive U.S. suppliers of high-quality products such as dairy foods.

The U.S. dairy industry has the capability of being a leading world supplier of dairy products if trade-distorting subsidies and market barriers are eliminated. The market-opening trade agreements like the NAFTA are an important positive step in the right direction, but much more needs to be done. And to do more, we need fast track negotiating authority.

Mr. Chairman, thank you for the invitation to appear today. I would be happy to answer any questions you might have.

[The prepared statement follows:]

Statement of Janet A. Nuzum, Vice President and Counsel, International Dairy Foods Association

Mr. Chairman, and Members of the Subcommittee, thank you for the opportunity to appear before you today. My name is Janet A. Nuzum, and I am appearing on behalf of the International Dairy Foods Association (IDFA), where I have been Vice President and Counsel since February of this year. Prior to joining IDFA, I had the honor of serving five years as a Commissioner on the U.S. International Trade Commission (USITC), including two years as Vice Chairman of the Commission. Previous to my tenure on the USITC, I was a member of the professional staff of this Subcommittee for almost nine years; it is a pleasure to return to this room and appear before the Subcommittee in my new capacity in the private sector.

The International Dairy Foods Association is the leading U.S. trade association representing the interests of processors, manufacturers, and marketers of dairy products, including milk, milk-based drinks, cream, yogurt, cheese, ice cream and other frozen desserts. As an umbrella organization, IDFA is comprised of three constituent organizations: the Milk Industry Foundation, National Cheese Institute, and International Ice Cream Association. IDFA members include more than 650 companies, with over 735 facilities in 48 states in the United States. In addition, IDFA has 44 members in 18 foreign countries. Our member companies range from large, multinational corporations to small family-owned businesses, and include both proprietary firms and farmer-owned cooperatives. IDFA members account for 85 percent of all the dairy products consumed in the U.S. market.

I appreciate the opportunity to share with you today the views of our associations with respect to the operation and effects of the North American Free Trade Agreement (NAFTA) in the dairy product sector.

Overview of international trade in the dairy foods sector

The U.S. agriculture and food industries play a very important role in the U.S. international trade picture, last year generating over $60 billion in exports. The U.S. dairy industry has annual retail sales in the United States of $70 billion, however, until recently, international trade has played a very limited role in U.S. dairy markets. This is primarily due to the very substantial protection that has historically characterized most dairy markets around the world, including our own.

As a direct consequence of the GATT Uruguay Round, disciplines on the use of export subsidies in international trade in agriculture and improvements in market access are opening up new opportunities for U.S. dairy exports, which reached over $1 billion in 1995, and over $740 million in 1996. Although U.S. domestic sales of dairy products continue to grow, they essentially keep pace with U.S. population growth. The real opportunities for expansion of dairy product sales lie in export markets, especially those developing country markets with high rates of income growth, expanding populations, and changing dietary habits. As a technologically advanced and efficient supplier of high-quality, safe and nutritious dairy products, the U.S. industry has the capability of being a leading world supplier to these foreign markets if trade-distorting subsidies and market barriers are eliminated. The market-opening trade agreements like the NAFTA are an important step in this direction.

NAFTA and U.S. Dairy Exports to Mexico

Mexico has been the single largest foreign market for U.S. dairy products since 1990, and last year accounted for over $109 million in purchases of U.S. dairy exports. NAFTA provides an excellent platform for further improving our trade relationship with this important neighboring market.

Significant improvements in market access were achieved in the NAFTA for U.S.-Mexico dairy trade. Mexican requirements for import licensing on dairy product imports were eliminated. Mexican tariffs on cheese—as high as 40 percent—are being phased out over 10 years. In addition, a tariff-rate quota on milk powder exports to Mexico applies to U.S. products, with duty-free access for in-quota quantities, and eventual phase-out of the tariff-rate quota in 15 years. These market access provisions give U.S. dairy exporters a significant advantage in the Mexican market over other world suppliers of dairy products.

Although the trade data show that total U.S. dairy exports to Mexico have declined each year since 1994 (from approximately $152 million in 1994, to $124 million in 1995, to $109 million in 1996), focusing only on the aggregate data trends masks the true benefits which NAFTA has brought about. The peso devaluation obviously dampened Mexican demand for U.S. dairy products, as it did for most exports to Mexico. These effects show up in the trade flows for 1995 and 1996. Also dampening U.S. dairy export figures for 1996 were conditions in the U.S. domestic market for milk that allowed milk to be sold at higher prices here in the United States.

The export picture has recovered, however, and recent trade data show that U.S. exports of dairy products to Mexico this year are up substantially over levels for the comparable period last year—a 19% increase for total dairy product exports, and a whopping 167% increase in the category of fluid milk and cream exports.

Even more significant than the aggregate data, however, are the shifts in the composition of our export trade to Mexico. Historically, butter and milk powder have accounted for the overwhelming share of dairy exports to Mexico. These exports are typically concessional or subsidized sales destined for use in Mexico's government-sponsored feeding programs. More recently, however, commercial, unsubsidized sales of dairy products—particularly fluid milk, ice cream, and whey products—have been increasing.

This shift away from subsidized exports of bulk commodities towards unsubsidized commercial exports of value-added dairy products is an extremely important development that cannot be overemphasized in significance. Given the size of Mexico's market, with 96 million consumers, the proximity of the market, and the cultural preference for American-made products, the U.S. dairy industry is in an excellent position to take advantage of opportunities for increased commercial trade in value-added dairy products. Dairy-based desserts, such as ice cream, are increasing in popularity with Mexican consumers. One current exporter of fluid milk and related dairy products attributes as many as 150 jobs in one of its plants to be possible just because of the additional business it now enjoys in the Mexican market.

NAFTA has been a direct contributor to this increasing trade in dairy products with Mexico. In addition to the tariff preference and increased access provided for U.S. dairy products, NAFTA has brought about a noticeable and significant shift in the business culture in Mexico. The implementation of NAFTA has transcended the world of customs officials and ushered in a new era of cooperation and partnership with U.S. business interests at all levels of the private sector and Mexican government. Relationships are easier to develop, and problems are easier to resolve than ever before. Being successful in the marketplace still takes work and commitment, but the mere existence of NAFTA seems to be making it a little easier for American business interests to succeed in Mexico.

NAFTA AND U.S. DAIRY EXPORTS TO CANADA

Unfortunately, the same cannot be said with respect to dairy trade with Canada. Neither the NAFTA nor its predecessor, the U.S.-Canada Free Trade Agreement (CFTA), effectively improved conditions for U.S.-Canada dairy trade. Canada continues to restrict dairy imports by tariff-rate quotas at very low in-quota levels with exorbitant over-quota tariff rates, reaching as high as 359%. Although both the United States and Canada agreed to eliminate tariffs on dairy products by January 1998, Canada took the view after the conclusion of the GATT Uruguay Round that this CFTA/NAFTA commitment did not apply to the tariffication of import quotas on supply-managed products such as dairy.

Last year, to the immense disappointment of the U.S. dairy industry, a NAFTA panel upheld Canada's arguments, and sustained the application of over-quota tariffs to dairy product trade between the United States and Canada. Consequently, the only preference afforded to U.S. dairy trade entering Canada under the NAFTA is a small margin of tariff preference for in-quota quantities. Canada's dairy product markets remain highly insulated from foreign competition, including U.S. competition.

This does not mean that dairy trade with Canada is nonexistent. Canada is our third largest export market for U.S. dairy products, accounting for over $97 million in purchases of U.S. dairy products last year. Overall dairy exports to Canada have been moderately expanding, although most of the trade, and the trade growth, has been in dairy product categories outside of the import restrictions related to the dairy supply management regime. The largest category of dairy product we export to Canada, for example, is whey, which last year represented 25 percent of our dairy exports to Canada. Increases in U.S. whey exports are partly due to the fact that whey protein concentrate is not subject to a tariff-rate quota in Canada. Additional U.S. exports of fluid milk, on the other hand, are being blocked by Canada's refusal to allow in commercial imports of fluid milk under a tariff-rate quota. Opening up the tariff-rate quota would allow additional trade in a volume equivalent to the production of a good-sized fluid milk plant. These examples further attest to the opportunities for trade growth when markets are not encumbered by restrictive trade barriers.

As a small step towards freer trade in dairy products between the United States and Canada, IDFA proposes bilateral negotiation of a dairy re-export program, that would authorize duty-free (and tariff-rate quota-free) trade to the other country for dairy-containing products that are processed or manufactured from dairy ingredients sourced in the other country. For example, if a U.S. ice cream manufacturer used Canadian-origin cream in the manufacture of its ice cream, it could export ice cream to Canada containing an equivalent amount of milkfat and nonfat solids, free of any Canadian duty and outside of any tariff-rate quota restriction. The same rules would apply to Canadian dairy-containing products manufactured from U.S.-origin dairy ingredients. Although it is a far cry from a truly open, regional market in dairy products, such a bilateral arrangement would make some progress in establishing a preferential relationship in the U.S.-Canadian dairy sectors, and facilitating rather than hindering cross-border dairy trade.

THE NEED FOR CONTINUED TRADE LIBERALIZATION: THE CASE FOR "FAST TRACK" NEGOTIATING AUTHORITY

Although the "free trade agreement" with Canada does not offer free trade in dairy products, the NAFTA provisions opening dairy trade with Mexico provide significant market access benefits to the U.S. dairy industry. Earlier this year, IDFA joined with over two dozen agricultural and food organizations in cosponsoring a study conducted by PROMAR International on "The U.S. Agricultural Export Experience with NAFTA Partners." This study has been separately submitted by PROMAR for the record of today's hearing, and confirms that, on balance, U.S. agriculture and food industries have benefited significantly from NAFTA.

IDFA believes that the U.S. dairy industry has much more to gain from additional trade liberalization in markets around the world. In order to continue making progress in eliminating existing trade barriers and trade-distorting practices, and preventing new ones from emerging, IDFA strongly urges the Congress to enact "fast track" negotiating authority.

Renewal of fast track is critical for the United States to play a leadership role—which it must—in the upcoming WTO negotiations on agriculture scheduled to begin at the end of 1999. The European Union has already captured substantial shares of world dairy trade as a result of aggressive use of export subsidies and protectionist policies (for example, the EU holds 57% of world cheese trade). We cannot afford to let the EU take the lead on setting the agenda for the next round of international rules on agricultural trade.

IDFA recently wrote to Ambassador Barshefsky, along with several other dairy organizations, and identified key negotiating objectives of importance to the U.S. dairy industry for the upcoming WTO negotiations (a copy of our letter is attached). Unless U.S. trade negotiators are armed with fast track negotiating authority, however, the United States will not have the opportunity to set, let alone achieve, that agenda. The only way we can assure improved market access for U.S. dairy and other agricultural products is to be a dominant force at the negotiating table. That requires fast track negotiating authority.

Finally, IDFA adheres to the widely-held view that trade agreements are only effective if they are vigorously implemented and enforced. Although the WTO Agreement on Agriculture includes only modest reductions to export subsidies and improvements in market access, the disciplines and commitments must be enforced. Last week, IDFA jointly filed a section 301 petition, along with the National Milk Producers Federation and the U.S. Dairy Export Council, challenging two practices in Canadian dairy policy as inconsistent with their WTO commitments. Specifically, a new special milk class pricing and pooling mechanism, which implements two-tiered pricing in milk, provides unlimited export subsidies in circumvention of the WTO disciplines and scheduled reductions on export subsidies. In addition, Canada has failed to open a tariff-rate quota on fluid milk, refusing to allow commercial imports of fluid milk in the quantities agreed to in its WTO schedules. The petition filed by IDFA asks the U.S. Trade Representative to challenge these two WTO-inconsistent practices by Canada through dispute settlement procedures for a clear ruling that mandates Canadian compliance with the existing WTO rules. We look forward to helping USTR win this important challenge.

CONCLUSION

In conclusion, the dairy industry has much at stake in the operation of the international trading system. U.S. dairy policy is now on a track of market orientation, which facilitates our international competitiveness and transitions our industry to be a more active player in global markets. This emphasis on market-oriented dairy policies at home must be sustained, as well as supplemented by a push for free trade policies in the international arena. Future growth for the dairy industry will depend in large part on our access to foreign markets for dairy products and the elimination of unfair subsidies that discriminate against efficient, competitive U.S. suppliers of high-quality products. NAFTA was an important step in the right direction, although much more remains to be done in improving trade with our neighbor to the north. Expansion of NAFTA, or negotiation of new bilateral or regional arrangements, must include—not exclude—market-opening commitments in the dairy sector. The United States must also take the lead in shaping the upcoming multilateral round of agricultural trade negotiations in the WTO. In order to continue making progress in opening markets for U.S. dairy products, we urge the Congress to enact fast track negotiating authority this fall.

Thank you for the opportunity to share our views with you.

Chairman CRANE. Thank you, Janet.

And Mr. Martin.

STATEMENT OF LARRY MARTIN, PRESIDENT, AMERICAN APPAREL MANUFACTURERS ASSOCIATION

Mr. MARTIN. Thank you, Mr. Chairman. I'm Larry Martin, president of AAMA, the American Apparel Manufacturers Association, the central trade association for apparel manufacturers in the United States. Our members are responsible for nearly 80 percent of the $50 billion in clothing sold at wholesale each year. Our members are predominantly domestic manufacturers, but also manufacture in Mexico, Central America, the Caribbean, and other places.

When we testified before this Subcommittee during its consideration of NAFTA 4 years ago, we thought that NAFTA would make our industry more competitive in the world; that it would shift apparel sourcing from the Far East to the Western Hemisphere, where there would be involvement by United States companies. We thought that it would strengthen our members by providing them with the opportunity for coproduction in Mexico, lowering their overall costs, and enabling them to compete in a global environment. We are pleased to report that NAFTA, in conjunction with Central America and the Caribbean, is accomplishing those aims.

Let me pause to emphasize that we are not in business to move jobs offshore. Over the years, AAMA has taken strenuous efforts to control the growth of imports. We have supported legislation to impose global quotas. We have participated in antidumping cases. We have argued loud and long for the improvements in the import control program.

However, we have come to realize that we must compete with low-age imports. In order to participate in that competition, many of our manufacturers have moved some production to Mexico and the Caribbean. As I said, this gives them lower average costs and makes them more competitive, allowing them, in fact, to maintain large volumes of employment in the United States and to continue to use U.S. fabric and other apparel components.

The fact of the matter is that it is no longer economically feasible to make some kinds of garments in the United States. Our average wage level of about $8 an hour, plus benefits, makes it very difficult to compete with countries where wages are measured in cents, not dollars. This price competition, while difficult for manufacturers, has been very beneficial for American consumers. In 1980 apparel prices averaged 13 percent higher than the Consumer Price Index. Last year apparel prices in this country were 19 percent below the Consumer Price Index. Clearly, there are apparel bargains out there for the American consumer.

We would like to point out that there is another factor contributing to the trend toward offshore production. Two years ago, we surveyed our members on a variety of subjects, including whether they were able to hire all the workers they needed to keep their domestic plants operating fully. The answer 2 years ago—and I'm sure it's more emphatic now—was that nearly one-half of our members were unable to attract adequate labor supplies.

Regarding NAFTA, for the most part, our beliefs have become fact. Mexican production has grown dramatically. Mexico and the Caribbean Basin have taken import growth away from the Far East. Total imports have grown at a slower rate than before NAFTA. While we have continued to lose apparel jobs in the United States, domestic production has remained relatively stable.

Apparel imports from Mexico, most of them produced by American companies, have grown from $1.4 billion in 1993, the year before NAFTA, to $3.6 billion last year. Mexico has grown from 4 percent of our import share to nearly 10 percent in that period of time.

Central America and the Caribbean, without the benefits of NAFTA, have continued to grow, but at a much slower pace. These countries sent us 4 billion dollars' worth of clothing in 1993 and 6 billion dollars' worth last year. Their share of the import market has grown from 14 to 16.5 percent.

What effect has this had on the Far East? It has caused a significant decline in imports here. The rest of the world, other than Mexico and the Caribbean Basin, had 82 percent of our imports in 1993, but by last year their share had declined to less than 74 percent.

All this has occurred during a time when total import growth has slowed. In the 3 years since NAFTA went into effect, the average growth rate of total apparel imports has been 7 percent a year. In the 3 years prior to NAFTA, import growth averaged nearly 12 percent a year. For the purposes of perspective, I'd like to point out that if Mexico were a company, its exports of clothing to the United States would rank it fourth among American apparel manufacturers. There are three domestic companies that are larger than all of the production in Mexico that comes to the United States.

Domestic apparel production was worth $50.2 billion in 1993; last year it was worth $49.8 billion, a decline of only seven-tenths of 1 percent. All these numbers tell us that, for the U.S. apparel industry, NAFTA has worked well. We believe, though, that it is past time to move onto the next step. Even before the NAFTA negotiations were completed, AAMA endorsed the concept of extending NAFTA-type treatment to apparel from Central America and the Caribbean. This is important to us for two reasons. First, it will expand our ability to compete in the world. Second, U.S. manufacturers who have been encouraged by our government to open operations in Central America and the Caribbean have been put at a disadvantage by NAFTA. While they enjoy the lower duties provided by the 807 and 807(a) programs, they do not have the duty-free access Mexico has under NAFTA.

Long range, we support full integration of Central America and the Caribbean into NAFTA—with all the obligations a free trade agreement involves. Most of the countries in the region have said they are prepared to accept those obligations. However, it is clear to us that such an undertaking would be years in the making. In the meantime, our industry would be denied an opportunity to make it more competitive in the world, and the countries of the region would continue to be denied equal status with Mexico.

We believe that a CBI parity program of relatively limited duration would provide those needed benefits to us and the region, and also serve as an incentive toward a full free trade relationship. CBI parity always has had strong support in Congress, and the administration is solidly behind it.

Just 2 months ago, the House of Representatives included the provision in the budget reconciliation bill, and we are deeply grateful to the leadership of this Subcommittee, particularly you, Mr. Crane, and of the House leadership for shepherding the measure through the legislative process. Unfortunately, it was dropped from the budget bill in conference for reasons having nothing to do with parity. We see only one opportunity this year for CBI parity to succeed, and that is as part of the fast track legislation which this

Subcommittee will be considering later this fall. We urge you to include parity in that measure and bring to a close 4 years of effort during which parity has had broad support, but always has fallen just short of final enactment.

In summary, AAMA and its members believe that NAFTA has served our industry well. We believe the time is overdue to take the next step and extend its apparel provisions to Central America and the Caribbean.

Thank you, Mr. Chairman. I'd be happy to answer any questions you may have.

[The prepared statement follows:]

Statement of Larry Martin, President, American Apparel Manufacturers Association

Thank you, Mr. Chairman. I am Larry Martin, President of the American Apparel Manufacturers Association (AAMA). AAMA is the central trade association for apparel manufacturers in the United States. Our members are responsible for nearly 80 percent of the $50 billion in clothing sold at wholesale each year. They make every kind of garment and are located in nearly every state. Our industry employs 815,000 workers.

While most of the large apparel manufacturers in the United States are our members, many of our members are relatively small companies. Two-thirds have sales under $20 million a year.

Our members are predominantly domestic manufacturers, but most also manufacture in Mexico, Central America or the Caribbean, import from other sources, or do both.

When we testified before this Committee during its consideration of NAFTA four years ago, we said that the negotiation had met our aims and that we supported the agreement. We wanted a rule of origin that would preserve NAFTA for the apparel industries of the three countries, we wanted sufficient flexibility to allow our members to manufacture in Mexico. And we wanted tough enforcement provisions. All those were included in the agreement.

We thought then that NAFTA would make our industry more competitive in the world. That it would shift apparel sourcing from the Far East to the Western Hemisphere where there would be involvement by U.S. countries. We thought that it would strengthen our members by providing them the opportunity for co-production in Mexico, lowering their overall costs and enabling them to compete in a global environment.

Over recent years, production by American companies has created thousands of jobs in Mexico and the Caribbean. But it has not been a one-way street. We estimate that 15 new apparel jobs are created in the United States by every 100 jobs created south of the border. This is in addition to the thousands of U.S. jobs it maintains in the textile, transportation and other industries.

Let me emphasize that if this production had gone to the Far East, there would have been no apparel jobs created or maintained in the U.S. Moreover, if those garments had been made in the Far East, they would have used Asian fabric, not American, and the same applies to other clothing components.

We are pleased to report that NAFTA, in conjunction with Central America and the Caribbean, is accomplishing those aims.

Let me pause to emphasize that we are not in business to move jobs off-shore. Over the years, AAMA has taken strenuous efforts to control the growth of imports. We have supported legislation to impose global quotas. We have participated in anti-dumping cases. We have argued loud and long for improvements to the import control program.

However, we have come to realize that we must compete with low-wage imports. In order to participate in that competition, many of our manufacturers have moved some production to Mexico and the Caribbean. This gives them lower average costs and makes them more competitive, allowing them to maintain large volumes of employment in the United States.

The fact of the matter is that it is no longer economically feasible to make some kinds of garments in the United States. Our average wage level of about $8 an hour plus benefits makes it very difficult to compete with countries where wages are measured in cents, not dollars.

This price competition, while difficult for manufacturers, has been very beneficial for American consumers. In 1980, apparel prices averaged 13 percent higher than the consumer price index. Last year, apparel prices in this country were 19 percent below the consumer price index. Clearly, there are apparel bargains out there for the American consumer.

We would like to point out that there is another factor contributing to the trend toward off-shore production. Two years ago, we surveyed our members on a variety of subjects, including whether they were able to hire all the workers they needed to keep their domestic plants operating fully. The answer was that nearly half of our members are unable to attract an adequate labor supply.

Regarding NAFTA, for the most part our beliefs have become fact. Mexican production has grown dramatically. Mexico and the Caribbean Basin have taken import growth away from the Far East. Total imports have grown at a slower rate than before NAFTA. While we have continued to lose apparel jobs in the United States, domestic production has remained relatively stable.

Apparel imports from Mexico—most of them produced by American companies—have grown from $1.4 billion in 1993, the year before NAFTA went into effect, to $3.6 billion last year. Mexico has grown from four percent of our import share to nearly 10 percent in that period of time.

Central America and the Caribbean, without the benefits of NAFTA, have continued to grow, but at a much slower pace. Those countries sent us $4 billion worth of clothing in 1993 and $6 billion last year. Their share of the import market has grown from 14 percent to 16.5 percent.

What effect has this had on the Far East? It has caused a significant decline in import share. The rest of the world other than Mexico and the Caribbean Basin had 82 percent of the import market in 1993, but by last year had declined to less than 74 percent.

All this has occurred during a time when total import growth has slowed. In the three years since NAFTA went into effect, the average growth rate for total apparel imports has been seven percent a year. In the three years prior to NAFTA, import growth averaged nearly 12 percent a year. In fact, in the 17 years between 1980 and 1996, import growth averaged 12.3 percent a year. Mexico, aided by NAFTA and the peso devaluation, has grown rapidly. Apparel imports have continued to grow. But, clearly, NAFTA has not caused the wild import expansion some predicted.

Domestic apparel production was worth $50.2 billion in 1993. Last year, it was worth $49.8, a decline of seven-tenths of one percent. Even so, last year was nearly 14 percent higher than it was in 1991.

All these numbers tell us that, for the U.S. apparel industry. NAFTA has worked well.

We believe that it is past time to move on to the next step. Even before the NAFTA negotiations were completed, AAMA endorsed the concept of extending NAFTA-type treatment to apparel from Central America and the Caribbean.

This is important to us for two reasons: First, it will expand our ability to compete in the world. Second, U.S. manufacturers who have been encouraged by our government to open operations in Central America and the Caribbean have been put at a disadvantage by NAFTA. While they enjoy the lower duties provided by the 807 and 807A programs, they do not have the duty-free access Mexico has under NAFTA.

With two notable exceptions, apparel production in the CBI region has stagnated since the inception of NAFTA. Since 1993, apparel imports from the region have grown from $3.9 billion to $6 billion. However, $1.2 billion of that $2.1 billion in growth has come from two countries, Honduras and El Salvador. Growth among the other 22 countries in the region has been essentially flat. The reasons for the growth in Honduras and El Salvador are two-fold: They were late starters in the apparel industry, and our members went there in anticipation of CBI parity.

Long-range, we support full integration of Central America and the Caribbean into NAFTA, with all the obligations a free trade agreement involves. Most of the countries in the region have said they are prepared to accept those obligations. However, it is clear that such an undertaking would be years in the making. In the meantime, our industry would be denied an opportunity to make it more competitive in the world and the countries of the region would continue to be denied equal status with Mexico.

We believe that a CBI parity program of relatively limited duration would provide those needed benefits to us and the region and also serve as an incentive toward a full free-trade relationship.

CBI parity always has had strong support in Congress and the Administration is solidly behind it. Just two months ago, the House of Representatives included the provision in the budget reconciliation bill. We are deeply grateful to the leadership of this Committee—Mr. Crane, Mr. Matsui, Mr. Archer and Mr. Rangel—and of the House leadership, for shepherding the measure through the legislative process.

Unfortunately, it was dropped from the budget bill in conference for reasons having nothing to do with parity.

We see only one opportunity this year for CBI parity to succeed. That is as part of the fast track legislation which this Committee will be considering later this fall. We urge you to include parity in that measure and bring to a close four years of effort, during which parity has had broad support, but always has fallen just short of final enactment.

In summary, AAMA and its members believe that NAFTA has served our industry well. We believe the time is overdue to take the next step and extend its apparel provisions to Central America and the Caribbean.

Thank you, Mr. Chairman. I would be happy to answer any questions you may have.

Chairman CRANE. Thank you, Mr. Martin.

First, Janet, I want to ask a question of you. I have been told the seats up here are more comfortable than those you're in. [Laughter.]

Ms. NUZUM. I think they're a little bit warmer up there, too. I discovered that in the back of the room, there's more air conditioning draft. Nevertheless, I'm glad to have the opportunity to sit on this side and be with you again.

Chairman CRANE. Well, we always appreciate having you with us, and we miss you.

Let me ask you a quick question, and that has to do with the 301 that you filed vis-a-vis Canada's violations of what we assume are the guidelines. Have there been any kinds of problems like that with Mexico?

Ms. NUZUM. No, the Mexican dairy industry does not have the same kind of protection and supply management regime that Canada affords its dairy industry. That supply management regime is really the crux of the problem, from which arises a multitude, frankly, of issues and barriers with respect to the Canadian dairy market.

The 301 that we just filed last Friday with the U.S. Trade Representative's office alleges two particular violations of the World Trade Organization's Agreement on Agriculture. Specifically, the first has to do with a new export subsidy scheme that the Canadian Government is affording its dairy industry. It is a two-tiered pricing scheme that works through a new pooling mechanism. The Canadian Government is claiming that this new scheme is not subject to any of the disciplines and reduction commitments that we agreed to in the Uruguay round with respect to export subsidies. We are alleging that it's nothing more than a circumvention of those reduction commitments, and, therefore, we are asking for a WTO dispute settlement panel to rule in our favor with respect to that.

Chairman CRANE. If you'll yield for 1 second, Janet, did they just do this or has this been in place for some time?

Ms. NUZUM. The Canadian dairy scheme, the new version of the particular subsidy program, came into effect right after the Uruguay round new rules came into effect. The authority went into place on August 1, 1995, and they have been phasing in this program since then.

Chairman CRANE. I see.

Mr. Stallman, you say in your testimony that when the United States reaches trade agreements, we give up very little while other countries give up far more. Was this the case with NAFTA, too?

Mr. STALLMAN. Well, it was with respect to the agricultural segments of each of the countries. Our tariffs in general were lower than—and import restrictions—were generally lower than the other countries. And so they are coming down from a higher level than what we are when we negotiate these trade treaties.

Chairman CRANE. So NAFTA is consistent with our agricultural exports to other countries where we have advanced free trade?

Mr. STALLMAN. Yes.

Chairman CRANE. Very good.

Mr. Martin, looking at the United States trade overall, and at your industry in particular, has there been a shift in the source of U.S. imports away from Asian suppliers in favor of Mexico and Canada, and how does this shift in favor of NAFTA suppliers affect the United States economy?

Mr. MARTIN. There's been a very significant shift, and it's occurred in the period since NAFTA went into effect. Basically, Asia's share of our import market has declined from nearly 85 percent to less than 74 percent, which is a large volume, and that volume has shifted to Mexico, the Caribbean, and Central America. It's been very——

Chairman CRANE. If you'll yield just 1 second——

Mr. MARTIN. Yes.

Chairman CRANE. With respect to the Caribbean and Central America, I had heard that they were injured, absent CBI parity, and that—in fact, I think the President of Guatemala told me 20,000 Guatemalans had packed up their sewing machines and walked across the border already. Are they getting profoundly hurt, absent parity?

Mr. MARTIN. It's our belief that they are. The CBI region in total is still experiencing some growth in exports of apparel to the United States. However, that is all centered in two countries: Honduras and El Salvador. And the reason that growth is persisting in those two countries is twofold. First, they were latecomers to the apparel industry. They started from a smaller base. And, second, American companies went down there to invest, in anticipation of CBI parity. The rest of those countries are stagnant as far as their apparel manufacturing.

Chairman CRANE. I understand Fruit of the Loom went down to Honduras.

Mr. MARTIN. It's my understanding they——

Chairman CRANE. They have a facility down there.

Mr. MARTIN [continuing]. It's my understanding they do have a facility there.

Chairman CRANE. All right. Well, I thank you all for your testimony, and your printed statements will be made a part of the record.

Oh, wait. Excuse me. I'm sorry. I'm sorry. She's back. Let me yield to Karen Thurman.

Ms. THURMAN. I know, Mr. Chairman, I apologize for not being here for all of this, but I do appreciate again you letting me have this opportunity.

Mr. Stallman, let me ask you a couple of questions since you're, I guess, representing the American Farm Bureau, and I noticed in your testimony that you specifically talked about the Florida tomato farmers and then the fact that they had reached some deal on the import issue, but then you also go on to say that it's not being enforced.

What would you give as a suggestion for some of the things that we might be looking at for enforcement of this? If this is a major part of what people relied on during negotiations, what would be some things you would believe that we should be doing to make sure these are enforced?

Mr. STALLMAN. Well, there might have to be some changes in the way we identify marketing periods and the difference in time——

Ms. THURMAN. The seasonal?

Mr. STALLMAN. Yes, the seasonal issue. We might have to redefine some of those. We need quick response times when these issues arise. It doesn't take long for a perishable vegetable crop to lose its market, if you're shooting for a certain market, those types of things in general.

Ms. THURMAN. There is a piece of legislation that has been introduced to, in fact, look at the seasonal issue. Would your organization be in support of that?

Mr. STALLMAN. I had no knowledge of that. We have our trade policy expert with us from AFD, if she would like to respond to that question.

Ms. THURMAN. OK, I'd really like to hear that at some point from somebody because I think it is a major issue.

Mr. STALLMAN. We can get you the information.

[The information was subsequently received:]

AMERICAN FARM BUREAU FEDERATION
600 MARYLAND AVENUE SW., SUITE 600
WASHINGTON, DC 20024
May 6, 1998

Honorable
United States Senate
Washington, DC 20510

Dear Senator

The American Farm Bureau urges you to pass legislation that will clarify the definition of a "domestic industry" which considers seasonality of perishable commodities. Legislation, S. 1463, to accomplish this was introduced by Senator Bob Graham in December and identical language, H.R. 2795, was introduced in the House. The American Farm Bureau Federation supports these bills.

The legislation will clarify the definition of "domestic industry" and "like or directly competitive articles" for the purposes of safeguard petitions under Section 202 of the Trade Act of 1974. The provision would, in the case of perishable agricultural products, make seasonality of production one of the factors the International Trade Commission (ITC) considers in defining those terms.

Section 202–204 of the Trade Act of 1974 authorizes the President to help domestic industries adjust to import competition pending review by the ITC. Section 202 does not allow the ITC to define "domestic industries" as producers during a particular growing season. Under current law, the ITC cannot consider seasonality in trade-sanction cases.

The Senate passed the legislation by unanimous consent on January 26, 1996, and sent the bill to the House. Last month the House Parliamentarian determined that the legislation "affected revenue" under Article 1, Section 7 of the Constitution. In January, the Congressional Budget Office determined that the legislation was revenue neutral, but this was not determinative.

Opponents fear that other nations will retaliate. We must not be afraid to enact legislation that more clearly defines our industry and does not trigger ANY action or tariff changes. Farm Bureau believes this legislation to be within the United States' obligations under the North American Fair Trade Agreement as well as the Uruguay Round of the General Agreement on Tariffs and Trade. Our trading partners in the European Union are allowed to adjust reference prices, there by increasing tariffs, on fruits and vegetables when their crop is being sold. Switzerland can place a $5.00 tariff on California asparagus during the very short Swiss growing season. The Uruguay Round did not eliminate these practices.

U.S. agricultural producers deserve the opportunity for review by the ITC to determine if serious injury has resulted from import competition.

Farm Bureau urges you to pass S.1463/H.R.2795 to allow the ITC to consider perishable domestic agricultural industries on a seasonal basis.

Sincerely,

DEAN R. KLECKNER
President

DRK:bs/

Ms. THURMAN. And I really just kind of want to make a statement because I think that sometimes, and due to the effectiveness that I think the tomato industry in Florida has actually raised the issue—let me just give you some numbers, though, that are pretty remarkable from Florida's perspective, not just on tomatoes, but what we've seen happen from 1992–93, before NAFTA, to 1995–96; the market share during the competitive winter growing season for tomatoes went from 56 to 35; for cucumbers, it was from 37 down to 20.9; eggplant went from 47 to 25; beans, 72 to 59 and 78 to 64.

So while we sometimes look at just tomatoes, because that has been the issue that has been raised, quite frankly, I think the reason that some of the time the people have not come in these other commodities to remedies is because they haven't been working, which really, I think, puts our whole agricultural industry in jeopardy at some point. And I'm really curious—I think, again, to go back to your trade people, is to come back with some recommendations to us that we might be looking at to make sure that these agreements are enforceable.

Mr. STALLMAN. Yes, we would concur with that. We would like to see enforceability. Once we negotiate an agreement, particularly the border of Texas has had the same problems with some of the vegetables and citrus products down there, and we would certainly hope the next trade agreement or modifications to the existing one that we do addresses those issues.

Ms. THURMAN. Would any of you like to comment on this? If this is happening—maybe you haven't run into it yet within your own industries, but certainly at the time that it could happen—are there things that you see out there that potentially in the remedy process need to be strengthened?

Mr. MARTIN. I have no comment on that, Congresswoman.

Mr. JERRY KING. I have no comment relative to that as it applies to our industry.

Ms. THURMAN. So, if it's working well now, don't disrupt it, but I think we're all in this together. This is your food supply as well.

It may not be the product that you're up here to look at, but it certainly is your food supply.

OK, thank you.

Chairman CRANE. Well, again, I want to express appreciation to all of you for testifying today. We're sorry for the interruption. And let me reassure you that your printed statements will be made a part of the permanent record.

Thank you.

And with that, we have in our next panel JayEtta Hecker, Associate Director of International Relations and Trade Issues for the National Security and International Affairs Division for GAO; Sidney Weintraub, William E. Simon Chair in Political Economy at the Center for Strategic and International Studies; and Jack Sweeny, policy analyst for international trade and Latin American issues at the Heritage Foundation.

And if you folks will take your seats, I look forward to hearing your comments on the past 3 years under NAFTA, and what you think about the future of a free trade area in the Americas, hemispheric free trade.

And before we get started—and I would like to have you proceed in the order that I called you to testify—I want to compliment you, JayEtta, for the North American Free Trade Agreement Impacts and Implementation that you've provided to the Subcommittee. It's very valuable and we appreciate it.

STATEMENT OF JAYETTA Z. HECKER, ASSOCIATE DIRECTOR, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, INTERNATIONAL RELATIONS AND TRADE ISSUES, U.S. GENERAL ACCOUNTING OFFICE

Ms. HECKER. Thank you, Mr. Chairman. If you'd like me to begin, as you saw by our statement, there are the three areas that you asked us to cover that we're reporting on here today based on new work. One is the economic impacts of NAFTA. Two is the dispute settlement mechanism, the avoidance of disputes as well as the actual form of the dispute system, and then, finally, the two supplemental agreements.

Before I begin, because the body of our work is really reported in this testimony and it won't otherwise be printed, I'd like to acknowledge the substantial effort of our GAO evaluators who worked pretty tirelessly to put this together: Anthony Moran and our team in Los Angeles, as well as Dr. Friberg and other economists and staff from our Washington and Los Angeles offices. And I really credit them with the details that we were able to cover these issues for you in the short time.

On the economic impact, I'm going to try to speed through that pretty quickly because you've heard a lot. What we did was really review almost all the economic studies that have been done of NAFTA's impact, and we found really a substantial amount of consensus that results of NAFTA in its limited time period are all pretty much consistent with expectations of a positive, but modest improvement for the United States. That's in GDP, employment, differential effects on different sectors.

In addition, as was also brought up today, there were important geopolitical objectives that the United States had of locking in

Mexico's significant reforms that actually preceded the NAFTA, and also promoting economic growth, the kind of trade diversion that you've really heard about today, of having trade that is otherwise going to other countries go to Mexico. There have also been indications that there has been that kind of lock-in of those reforms and some important movements in supporting a sustained, open economy in Mexico.

The main observation that I'll net out from our review of those studies is on the issue of the methodology for jobs estimates, and I think that's an important thing because there are so many people focusing on it. I think one of the important things that you heard today is that NAFTA, not even any larger trade policy in general can really substantially alter overall U.S. employment levels. So a lot of the focus on looking on big, aggregate numbers, or that the numbers are too small or that the numbers are marginal, really sidesteps the reality that U.S. overall economic employment conditions are determined by macropolicies and demographic conditions. So that's kind of one thing about this focus on job numbers. We shouldn't be looking to trade agreements or judging trade agreements by the jobs created. That's a diversion of what really is an expected outcome.

The second is, even though I make that point, people are concerned about the numbers, even if they're not the major impact. And, unfortunately, we want to report to you that we have problems with everybody's numbers. Most, unfortunately, either estimate only the gains or only the losses, and you're really not getting many good estimates of the actual employment effects of NAFTA. So we caution you, and our statement goes into detail about the calculations or the methodologies, and they're really not very reliable. So a lot of focus shouldn't be on those particular numbers.

And an example is the Transitional Adjustment Assistance Program. There's a lot of focus on that. Somehow people think that's going to tell you how many people lost jobs from NAFTA, and it doesn't. It's simply the nature of the program, what it does, what a certification is, the requirements to be certified are not NAFTA-related, and those numbers are not a good proxy for the job impact of NAFTA.

Now the two unique elements of the statement that I'll draw your attention to are comments on the dispute settlement system, which is a very, very important part of the agreement. We heard from many that it's helping resolve many issues before they become formal cases, and it's kept the formal cases to 36 in the first 3½ years. And a number of people observed to us, for $1 billion of trade a day, 36 formal dispute cases is remarkably low.

On the supplemental agreements, there's been a lot of talk about that, and of course we know the trade and environment issue is a major debate right now about where that fits in the agreement, and that the NAFTA was really quite unique in having these agreements. What our statement does for you today is provide what the agreements really covered, a lot of focus on cooperative elements, and we summarize what kind of cooperative efforts have moved forward; much less emphasis on enforcement. They were not designed—the language of them are not primarily enforcement tools. It's not a punitive system. It's largely set up to use public peer pressure, have broader exposure of those issues, and while people may want more, you can't judge whether these agreements have been a success judging them by something they didn't set out to do.

So that concludes my summary, and I hope the statement will be useful in the future.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of JayEtta Z. Hecker, Associate Director, National Security and International Affairs Division, International Relations and Trade Issues, U.S. General Accounting Office

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to testify on the impact and implementation of the North American Free Trade Agreement, or NAFTA. My testimony today will focus on (1) our review of three major studies of NAFTA's economic impacts and a brief overview of NAFTA's adjustment programs, (2) the implementation of NAFTA's mechanisms to both avoid and resolve disputes among the parties, and (3) the implementation of NAFTA's supplemental agreements on environmental and labor cooperation.

My testimony is based on our past work on NAFTA issues [1] and work we recently conducted at your request. In addition to assessing a wide range of studies on the economic effects of NAFTA, we interviewed pertinent trade ministry officials in the United States, Canada, and Mexico, as well as the heads of the NAFTA Secretariat and the National Administrative Offices in each country. We obtained the views of representatives from business, labor, and environment interests in the three countries.

BACKGROUND

NAFTA, which went into effect on January 1, 1994, was intended to facilitate trade and investment throughout North America. It incorporates features such as the elimination of tariff and nontariff barriers. NAFTA also supports the objective of locking in Mexico's self-initiated, market-oriented reforms. By removing barriers to the efficient allocation of economic resources, NAFTA was projected to generate overall, long-run economic gains for member countries—modest for the United States and Canada, and greater for Mexico.[2] For the United States, this is due to the relatively small size of Mexico's economy and because many Mexican exports to the United States were already subject to low or no duties. Under NAFTA, intra-industry trade and coproduction of goods across the borders were expected to increase, enhancing specialization and raising productivity. Although a substantial majority of economic studies concluded that only modest economic and employment effects were likely, NAFTA generated a heated public debate before the agreement's passage in Congress in 1993. NAFTA critics asserted that up to one million U.S. jobs would be lost, while the President projected that the agreement would generate 200,000 U.S. jobs.

NAFTA also included procedures first to avoid, and then to resolve, disputes between parties to the agreement. Separately, the three NAFTA countries negotiated and entered into two supplemental agreements designed to facilitate cooperation on environment and labor matters among the three countries.

Before I get into the specifics of these topics, I will summarize our main points.

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[1] See *North American Free Trade Agreement: Assessment of Major Issues* (GAO/GGD–93–137, Sept. 9, 1993). Also, see attached list of other related GAO products.

[2] A 1993 ITC synopsis of 12 economic studies of NAFTA found that the likely long-term effect of NAFTA would be an increase in U.S. real gross domestic product by between 0.02 and 0.5 percent, U.S. net aggregate employment between 0.03 and 0.08 percent or by 35,063 to 93,502 jobs, and real average wages by 0.1 to 0.3 percent or by $0.01 to $0.03 per hour. For Mexico, ITC reported that the likely long-term effect of NAFTA would be an increase in Mexico's real GDP by between 0.1 and 11.4 percent, net aggregate employment between 0.1 and 6.6 percent, and real average wages between 0.7 and 16.2 percent. See *Potential Impact on the U.S. Economy and Selected Industries of the North American Free Trade Agreement*, USITC Publication 2596 (Washington, D.C.: U.S. International Trade Commission, Jan. 1993).

SUMMARY

Assessment of NAFTA's effects is a complex undertaking. It is difficult to evaluate the impacts of NAFTA since the agreement's provisions are generally being phased in over a 10–15 year period, and it is hard to isolate the impact of the agreement from other trends and events. While recent studies by the International Trade Commission (ITC), the President, and the Economic Policy Institute offer valuable insights into the initial effects of NAFTA, in reviewing the studies we encountered methodological issues that need to be kept in perspective. Based on our review of these studies and other work, we have the following summary observations on NAFTA's impacts and implementation to date:

- While NAFTA is not yet fully implemented, U.S. trade with NAFTA members has accelerated. Estimates of changes in total trade among the member countries due to NAFTA are generally consistent with pre-NAFTA expectations. The current estimates of its impact on gross domestic product range from no discernable effect to modest gains for the United States, also consistent with pre-NAFTA long-run projections described by ITC.
- At the sectoral level, there are diverse impacts from NAFTA. Within sectors, these may include increases or decreases in trade flows, hourly earnings, and employment. Economic efficiency may improve from this reallocation of resources, but it creates costs for certain sectors of the economy and labor force, including job dislocation.
- Estimates of the agreement's impact on aggregate employment are widely divergent, ranging from gains of 160,000 jobs to losses of 420,000 jobs. We believe neither of these are reliable estimates of actual labor effects due to methodological limitations. In general, NAFTA, or broader trade policies, cannot be expected to substantially alter overall U.S. employment levels, which are determined largely by demographic conditions and macroeconomic factors such as monetary policy.
- While there is wide conceptual agreement on the contribution of trade liberalization to improvement in the standard of living through increased productivity and lower prices, estimating the extent to which NAFTA specifically furthers these goals presents a major empirical challenge that may never be overcome. For example, there are no estimates of NAFTA's direct impact on productivity. However, growth in shared production activity and two-way trade suggests that increases in sector specialization, a mechanism through which productivity may be improved, have occurred.

One of NAFTA's objectives was to lock in Mexico's market reforms and provide long-term economic growth in Mexico, with benefits to the United States through a more stable border. Mexico's response to its financial crisis of 1994–95 and the recent agreement to accelerate tariff reductions suggest that Mexico has been committed to meeting its NAFTA obligations. The effectiveness of NAFTA in locking in Mexico's long-term commitment to market reforms and promoting Mexican economic growth, however, is not yet clear.

While data on the use of the NAFTA Transitional Adjustment Assistance program (NAFTA–TAA) provides sectoral and geographic information on potential job dislocations, NAFTA–TAA certifications should not be used as a proxy for the number of jobs lost. This is because certifications are likely to either underrepresent or overrepresent the actual number of jobs affected. For example, under NAFTA–TAA, potential job losses are not required to be linked directly to NAFTA, thus overstating the total. In addition, not all potentially affected sectors are covered by the program, thus understating the total.

NAFTA's system for avoiding and settling disputes among the member countries is a critical element of the agreement. The agreement includes mechanisms such as the establishment of committees and working groups and an early consultation process to help the parties avoid disputes. According to government and private sector officials, these mechanisms have helped the governments resolve important trade issues and have kept the number of formal dispute settlement cases relatively low. Under NAFTA's formal dispute settlement mechanisms, as of July 1997 there have been 32 requests for binational panel reviews of countries' alleged unfair trade practices, 2 requests for panel reviews of NAFTA's application, and 2 complaints regarding investment.

U.S., Mexican, and Canadian government officials with whom we met were generally supportive of NAFTA's dispute settlement process over the past 3 years, noting especially the professionalism and lack of national bias of the panelists reviewing the cases. According to these officials, changes to NAFTA members' trade laws agreed to under NAFTA, in particular in Mexico and Canada, have also helped improve the transparency (openness) of their antidumping and countervailing duty administrative processes, thus reducing the potential for arbitrariness in their application. Despite their generally positive views of NAFTA's dispute settlement process, officials and legal commentators in the three countries have expressed some concerns about delays in NAFTA's panel selection process and in the speed and cost involved in pursuing a dispute. Further, some U.S. organizations have challenged the constitutionality of the provision allowing for binational panel review of countries' unfair trade determinations.

It is too early to determine what definitive effect the supplemental agreements will have on the North American environment and labor. However, the two commissions created to implement the agreements have been acknowledged by some government and private sector officials for several positive achievements to date. Government officials in each of the three NAFTA countries we spoke with generally believe the respective agreements have positively affected their country's understanding of and cooperation on labor and environmental issues. In addition, the commissions' efforts to encourage the enforcement of domestic environmental and labor laws through the processes allowing for submissions by interested parties have been recognized. These processes are being tested with the filing, to date, of 11 public submissions on the environment and 8 on labor alleging lack of countries' effective enforcement of their environment and labor laws.

U.S., Canadian, and Mexican government officials and experts have also expressed some concerns about the agreements' implementation. For example, some government and private sector officials have cited the need for greater transparency in the Commission For Environmental Cooperation's procedures. In addition, a number of observers noted the significant difference in the levels of support for the two commissions. While the environment commission is funded at $9 million annually, the Commission for Labor Cooperation's annual budget is $1.8 million, which reportedly has contributed to problems at the labor commission in hiring and retaining staff.

Reviews of NAFTA's Impacts

The impact of NAFTA on the U.S. economy cannot be directly ascertained since changes in trade and investment also reflect other influencing factors. The results of economic analyses of NAFTA's impact on U.S. GDP are consistent with the pre-NAFTA long-run projections described by the ITC. In contrast, estimates of the agreement's impact on aggregate employment are widely divergent. Differences in the studies' assumptions and methodologies account for this divergence.

Since NAFTA's first round of tariff reductions went into effect in 1994,[3] total U.S. merchandise trade (exports plus imports) with Canada and Mexico has increased from an annual average of $269 billion (1991–93) to an annual average of $384 billion (1994–96). (See apps I–III) A significant factor influencing trade was the severe 1994–95 Mexican financial crisis.[4] This growth in total trade has been accompanied by an increase in the U.S. merchandise trade deficit with its NAFTA partners, from $8.6 billion to $34.0 billion, as import growth outpaced export growth. U.S. investment in Mexico has grown since NAFTA's implementation. From 1994 to 1996, the United States had an annual average of $3.1 billion in foreign direct investment to Mexico, compared to $2.0 billion from 1991 to 1993.

Recent Studies of NAFTA's Economic Impact

Mr. Chairman, let me now summarize the findings from three major reports on NAFTA's impact: (1) the in-depth June 1997 ITC study of NAFTA;[5] (2) the Presi-

[3] At the meeting of the NAFTA Commission in March 1997, the NAFTA trade ministers announced the successful conclusion of a set of accelerated tariff reductions. Also, based on private sector interest, they agreed to initiate negotiations on additional reductions to be concluded by year's end.

[4] In December 1994, nearly a year after the implementation of NAFTA, Mexico was forced to devalue its currency leading to a serious economic crisis characterized by high unemployment declining income and consumption, and a sharp reduction of Mexico's imports, including those from the United States. In *Mexico's Financial Crisis: Origins, Awareness, Assistance, and Initial Efforts to Recover* (GAO/GGD–96–56, Feb. 23, 1996), we examined the causes of this crisis and concluded that it originated in the growing inconsistency between monetary, fiscal and exchange rate policies pursued by Mexican authorities in 1994.

[5] *The Impact of the North American Free Trade Agreement on the U.S. Economy and Industries: A Three-Year Review*, USITC Publication 3045 (Washington, D.C.: U.S. International Trade Commission, June 1997).

dent's July 1997 report on the operations and effect of NAFTA;[6] and (3) a June 1997 study by some of the major critics of NAFTA.[7]

The ITC 3-Year Assessment

The June 1997 ITC assessment of NAFTA impacts represents the most comprehensive research effort we identified to date. Using an econometric approach, ITC sought to separate other trade-influencing factors, particularly Mexico's financial crisis, from NAFTA's impact on the U.S. economy as a whole, and on nearly 200 industrial sectors of the U.S. economy. In addition, the ITC assessment included a qualitative review of 68 aggregated sectors.

Based on all of its analysis, ITC concluded that NAFTA had a modest positive effect on the U.S. economy during its first 3 years of operation. ITC was unable to quantify a discernible effect on U.S. GDP, aggregate investment, or aggregate employment that can be attributed to NAFTA during its first 3 years. ITC concluded that NAFTA has significantly affected the aggregate levels of U.S. trade with Mexico, but not with Canada.

In its sectoral analyses, ITC found changes in trade, employment, and earnings that were due to NAFTA in a limited number of sectors. Among the nearly 200 sectors whose trade ITC modeled, U.S. exports to Mexico increased significantly in 13 sectors due to NAFTA, while no sector showed decreased exports to Mexico due to NAFTA. U.S. imports from Mexico increased significantly in 16 sectors after the effects of other influencing factors were taken into account, while U.S. imports from Mexico decreased significantly in 7 sectors due to NAFTA. In an econometric analysis of 120 industrial sectors, ITC found that 29 industries had changes in hourly earnings and employment levels. Among these 29 sectors, hours worked most often increased due to NAFTA, while hourly earnings were more often found to decrease. In their qualitative sectoral analysis, ITC industry experts found that employment declined due to NAFTA in 2 out of 68 sectors: the apparel and women's non-athletic footwear sectors. While some effort was made to address productivity impacts, ITC was unable to evaluate the direct impact of NAFTA on labor productivity in the various sectors due to data constraints. However, the indirect evidence examined by ITC suggested a positive impact on U.S. productivity in certain industries.

The President's Report

The President's report on NAFTA presents the findings of recent studies that estimate the agreement's impact. These include a commissioned DRI analysis and research published by the Federal Reserve Bank of Dallas.[8] Both studies isolate the effect of the Mexican financial crisis from NAFTA's effect on bilateral U.S.-Mexico trade flows.[9] In contrast to the ITC effort that modeled the employment impact of NAFTA, the President's report uses a simple job-multiplier analysis that assumes about 13,000 jobs are supported for every $1 billion in increased exports.

The Federal Reserve study modeled the impact of NAFTA on U.S. bilateral trade with Mexico. They found that NAFTA has on average boosted export growth by about 7 percentage points each year since implementation, for a cumulative expansion of exports of about $5 billion through 1995. U.S. import growth from Mexico on average has been about 2 percentage points greater each year, for a cumulative impact of about $1.8 billion in additional imports.[10] The DRI assessment found larger trade effects than the Federal Reserve study. The DRI study used a model of the Mexican economy to evaluate NAFTA's impact on bilateral trade with the United States, but excluded the petroleum sector. It found that in 1996, NAFTA increased U.S. exports to Mexico by $12 billion and imports from Mexico by $5 billion. The estimated trade impacts were then applied to a DRI macroeconomic model of the U.S. economy to simulate their impact on U.S. GDP and investment. According to

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[6] *Study on the Operation and Effects of the North American Free Trade Agreement*, U.S. President's report to the Congress of the United States (Washington, D.C.: The White House, July 1997).

[7] *The Failed Experiment—NAFTA at Three Years* (Washington, D.C.: Economic Policy Institute, Institute for Policy Studies, International Labor Rights Fund, Public Citizen's Global Trade Watch, Sierra Club, and U.S. Business and Industrial Council Educational Foundation, June 26, 1997).

[8] The commissioned DRI analysis drew on a previous report—*The Impact of NAFTA on Mexican Trade: An Empirical Study* (Lexington, MA: DRI/McGraw-Hill, Apr. 1997). David M. Gould, "Distinguishing NAFTA from the Peso Crisis," *Southwest Economy*, Federal Reserve Bank of Dallas (Sept./Oct. 1996).

[9] Neither study makes an assessment of the extent to which changes in U.S.-Mexico bilateral trade reflect trade diversion away from other trading partners.

[10] The Federal Reserve study reports that its estimates of the effects of NAFTA on exports and imports are not statistically significant.

the President's report, DRI estimates that NAFTA contributed $13 billion to U.S. real income and $5 billion to business investment in 1996, controlling for the impact of Mexico's financial crisis.[11]

The President's report uses the export estimates from the two studies to compute NAFTA's impact on job creation. The President's report estimates that NAFTA export expansion supported between 90,000 and 160,000 jobs in 1996.[12] The President's report did not compute any employment impact from increased imports from Mexico.

Consolidated NAFTA Critique

The Economic Policy Institute (EPI) prepared an assessment of NAFTA that also used a job-multiplier analysis. This assessment was included in the consolidated critique of NAFTA. However, the EPI analysis differed from the President's report in several notable respects. First, EPI did not separate the impact of Mexico's financial crisis from NAFTA's effects on trade flows.[13] Secondly, to compute job losses from NAFTA, EPI applied the export job-multiplier to the increase in imports rather than just to exports as done in the President's report. Also, EPI included changes in U.S.-Canadian bilateral trade in its assessment of NAFTA.

The critique concluded that the increased U.S. trade deficit with Mexico and Canada on balance has cost the United States 420,208 jobs since 1993. It states that the move to a $16.2 billion U.S. bilateral trade deficit with Mexico in 1996 from a bilateral surplus of $1.7 billion in 1993 cost the United States 250,710 of these jobs.[14] The critique also notes that the real wages of U.S. blue-collar workers has declined for almost 2 decades and suggests that imports from low-wage countries such as Mexico are an especially important cause of increasing wage inequality.

NAFTA ADJUSTMENT PROGRAMS

The benefits of trade agreements are widely dispersed, and the costs or dislocation effects are more concentrated. In recognition of the anticipated dislocation of some workers, the NAFTA Implementation Act established the NAFTA Transitional Adjustment Assistance (NAFTA–TAA) program in 1994. The program was designed to assist workers in companies affected by U.S. imports from Mexico or Canada or by shifts in U.S. production to either of those countries. The program is authorized to continue until September 30, 1998.[15] NAFTA–TAA benefits include basic readjustment services; employment services; training, job search allowances; relocation allowances; and, the feature that most distinguishes the program from basic unemployment insurance, income support for up to 52 weeks after exhaustion of unemployment insurance when enrolled in training.

As of Sept. 4, 1997, NAFTA–TAA certifications (verification of potential job losses since NAFTA's implementation) have been issued for 1,206 worker groups in firms located in 48 states.[16] Department of Labor statistics indicate that 2,884 workers

[11] The DRI data that is reported in the President's report differ from the data DRI submitted to the President's Council of Economic Advisers on July 1, 1997. That submission shows that NAFTA contributed $21.2 billion to U.S. real income and $4.2 billion to nonresidential fixed investment in 1996.

[12] The lower estimate uses an extrapolation of the Federal Reserve assessment that U.S. exports expanded by about $5 billion through 1995, while the higher estimate reflects DRI's assessment that NAFTA expanded U.S. exports by $12 billion.

[13] EPI reports that the overvalued peso was related to NAFTA as it artificially reduced the price of Mexican imports from the United States, and helped win U.S. passage of NAFTA in 1993. The United States had a trade surplus with Mexico from 1991 to 1993, giving credence to that idea. DRI argues that the process leading to the start of NAFTA complicated stabilization policy in Mexico, and was in that sense a contributing factor to the financial crisis. *The Impact of NAFTA on the North American Economy* (Lexington, MA: DRI/McGraw-Hill, Jan. 1997).

[14] EPI estimates that from 1993 to 1996 the increased trade deficit with Canada on balance cost the United States 169,498 jobs.

[15] The United States has two other major programs to aid adjustment of workers who have lost their jobs: the Trade Adjustment Assistance and the Economic Dislocation and Worker Adjustment Assistance programs. GAO reviews of these programs as well as the NAFTA–TAA found confusion about eligibility, inadequate tailoring of services, and delays in delivery. GAO has recommended that the programs be improved and consolidated. See *Multiple Employment Training Programs: Major Overhaul Is Needed to Create a More Efficient, Customer-Driven System* (GAO/T–HEHS–95–70, Feb. 6, 1995); and *Dislocated Workers: An Early Look at the NAFTA Transitional Adjustment Assistance Program* (GAO/HEHS–95–31, Nov. 18, 1994).

[16] NAFTA–TAA petitions, which can be filed by a group of three or more workers, are first reviewed by the Governor of the state where the worker's company is located. The U.S. Depart-

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have been certified as eligible for NAFTA–TAA benefits due to (1) increased imports from Canada or Mexico or (2) a shift in U.S. production to Canada or Mexico. Of these certifications, 623 were based on a shift of production to Canada or Mexico, 380 were based on increased customer imports, 167 were based on increased company imports, and 36 were based on high and rising aggregate imports from Canada or Mexico. As shown in table 1, the top five sectors in terms of worker group certifications and the number of workers covered were apparel, electrical and electronic equipment, lumber and wood products, fabricated metal products, and industrial/commercial machinery, and computer equipment. The top 10 states with NAFTA–TAA workers covered by certifications were Texas (12,797), Pennsylvania (12,788), North Carolina (12,001), New York (11,924), California (7,773), Georgia (6,556), Indiana (6,077), Tennessee (5,786), Arkansas (5,397), and New Jersey (4,788).

Table 1—Number of NAFTA–TAA Certifications by Sector, January 1, 1994-September 4, 1997

Sector	No. of worker group certifications	No. of workers covered
Apparel	433	42,140
Electrical and electronic equipment (except computing equipment)	246	29,730
Lumber and wood products (except furniture)	158	8,280
Fabricated metal products	103	12,750
Industrial/commercial machinery, and computer equipment	103	11,005
Other sectors	164	38,979
Total	1,207	142,884

Source: Department of Labor.

Because of the intense interest in NAFTA's impact on U.S. labor and the difficulty in calculating such impact, analysts have used NAFTA–TAA data as a proxy for job dislocations attributable to NAFTA. NAFTA–TAA certifications are not an accurate measure of jobs lost due to NAFTA, however, because certifications are likely to either underrepresent or overrepresent the actual number of jobs affected. On the one hand, NAFTA–TAA certifications are not required to be caused by, or linked to, NAFTA—they can be due to general trade effects between the United States and Canada or Mexico. In addition, NAFTA certifications represent potential job losses, not the actual number of jobs lost. These factors could potentially lead to the NAFTA–TAA figures being overstated. On the other hand, not all categories of workers potentially affected are covered by the program (for example, some services workers). Additionally, some researchers have questioned whether employees of small, nonunionized firms are fully aware of program benefits and are thus not being served by the program. Further, workers may opt to apply for other programs, particularly given the strict training requirement for NAFTA–TAA. These factors could potentially lead to understatement.[17] While NAFTA–TAA is fully operational, little evaluation has been done of how effectively the program serves to provide retraining and adjustment assistance to affected workers.

The NAFTA implementing legislation established an additional program to deal with job dislocation effects from NAFTA: the U.S. Community Adjustment and Investment Program under the North American Development Bank. The program was designed to provide loans and loan guarantees (up to $22.5 million, according to authorizing legislation) to businesses seeking to locate or expand existing operations in communities with job losses caused by NAFTA. It was to be implemented by a program office in Los Angeles, two advisory committees, and an ombudsman appointed by the President. However, during the first 3½ years of NAFTA, no loans were approved under the program. The Treasury Department issued its first designation of qualifying communities on August 1, 1997. That announcement declared 35 communities in 19 states eligible for business loans and loan guarantees.

Comments on Methodology

It is very difficult to evaluate the impact of NAFTA since the agreement's provisions are generally being phased in over a 10–15 year period, and it is hard to isolate the impact of the agreement from contemporaneous economic trends and other

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ment of Labor makes the final determination whether to approve or deny these petitions, and issues certifications for approved petitions.

[17] GAO is currently reviewing the scope and coverage of the NAFTA–TAA program.

unique events. While recent studies offer valuable insights into the initial effects of NAFTA, in reviewing the studies we encountered methodological issues that need to be kept in perspective.

The estimates of NAFTA's impact on GDP derived from econometric analyses are consistent with expectations of NAFTA's long-term impact. The ITC reports that NAFTA had no discernable impact on GDP after three years. The President's report finds that the short-term, transitory GDP gain from NAFTA was $13 billion in 1996, which represents less than 0.2 percent of U.S. GDP. Both estimates can be considered consistent with pre-NAFTA projections that the likely long-term impact of NAFTA would be a modest, positive increase in GDP—between 0.02 and 0.5 percent.

Several of the reports include conclusions about NAFTA's impact on U.S. aggregate employment. However, there is widespread consensus among many economists that aggregate employment is primarily determined by demographic conditions and macroeconomic factors such as monetary policy or interest rates. These economists would argue that trade agreements, such as NAFTA, primarily impact labor markets by shifting the composition of employment, potentially altering wages and income distribution, rather than affecting the overall level of employment in the country.

The President's report as well as the EPI study rely on the job-multiplier approach to estimate the potential job impact of changes in the nation's trade balance. This approach is questioned by many economists for computing the employment impacts of trade. Furthermore, as an application of this methodology, the President's and EPI's analyses both exaggerate their estimates of NAFTA's job impact. For example, the President's report did not calculate any job losses associated with increased U.S. imports from Mexico due to NAFTA.[18] Likewise, the job losses estimated by EPI are exaggerated, since some of the increase in U.S. imports from Mexico displaces imports from other nations rather than U.S. production.

The impact of NAFTA on wages, low-skill workers, and income inequality is a controversial issue related to NAFTA's impact on the economy. ITC analyzed the impact of NAFTA on sectoral wages but did not attempt to determine the impact on low-skill workers or income inequality. The President's report largely recapped the ITC analysis. While the critique associated trade expansion with two decades of declining real wages, it did not analyze NAFTA's specific impact.

An important methodological issue in analyzing NAFTA is how Mexico's 1994–95 financial crisis is treated. Estimates of NAFTA's impacts over its first 3 years differ greatly based on how the crisis is considered in the analysis. ITC's and the President's reports explicitly excluded its effects in their analysis, while the EPI study did not. While separating the crisis' impact from that of NAFTA has merit, events in Mexico leading to the financial crisis and the response to the crisis are intertwined with NAFTA. The financial crisis tested whether NAFTA succeeded in locking in Mexico's market-opening reforms. Mexican government officials noted that they met their NAFTA obligations rather than institute immediate tariff increases on U.S. products, as had occurred during a previous crisis in 1982. Furthermore, they undertook additional market-opening measures such as privatizing government-owned ports and railroads, according to Mexico's Trade and Commerce ministry.

Mechanisms for Avoiding and Settling Disputes

NAFTA contains mechanisms to help avoid trade disputes and settle them effectively when they do arise. In an effort to head off disputes, NAFTA established a number of committees and working groups on key trade-related issues to provide a channel for discussion of member countries' ongoing concerns. In addition, NAFTA's dispute settlement process includes a consultation mechanism that encourages members to make every effort to resolve differences in meetings and discussions before requesting a review. Further, the agreement's formal dispute settlement mechanisms address member countries' potential use of unfair trade practices, the interpretation and application of NAFTA, and the protection of investor rights. Finally, changes in NAFTA member countries' trade laws were required by the agreement to increase the level of transparency in countries' trade remedies determinations.

[18] The report argues that imports do not necessarily displace U.S. production and that because the "mainstream economic community has not developed any broadly agreed upon methodology" to estimate the displacement effect, the export job-multiplier computation should not be used to calculate employment level changes due to imports.

U.S., Mexican, and Canadian private sector and government officials with whom we spoke were generally supportive of NAFTA's dispute settlement process over the past 3 years. For example, they cited increased transparency in member countries' administration of trade remedy laws required by the agreement. However, some U.S. and Canadian officials were concerned about the timeliness of NAFTA's panel selection process. In addition, Mexican officials acknowledged that Mexico's pool of potential panelists is somewhat limited because Mexican attorneys are still developing expertise in trade dispute matters. Furthermore, questions have arisen regarding the constitutionality of NAFTA's dispute settlement provisions dealing with countries' determinations of alleged unfair trade practices.

Dispute Avoidance

NAFTA established a number of committees and working groups on significant trade-related issues to enable member countries to discuss their concerns. In addition, NAFTA committees and working groups provide forums for consultation on comprehensive trade-related subjects, such as rules of origin, agricultural subsidies, financial services, standards-related measures, trade and competition, and temporary entry by business persons. They are composed of trade and other relevant officials from the three governments.

Canadian, Mexican, and U.S. trade officials told us that, in general, NAFTA committees and working groups have helped all three countries to address important trade issues. They believe that these groups have prevented many issues from being elevated to the trade minister level and thus have minimized their politicization. One Canadian trade official commented that the working groups allowed government officials to settle their differences informally. U.S. embassy officials told us that Mexico and the United States are participating in NAFTA working groups to reduce delays that U.S. exporters encounter in meeting Mexican product standards. For example, to facilitate U.S. tire exports, Mexican officials told us they agreed to accept test data from U.S. tire manufacturers for the first time. A Canadian trade official cited a committee's work on accelerating the elimination of tariffs on certain products. Other examples of committee and working group efforts mentioned by government officials included harmonizing labeling requirements on apparel among NAFTA countries and resolving disagreements on classifying goods to meet NAFTA rules of origin.

NAFTA has also built into its dispute settlement process opportunities for disputing parties to participate in consultations, or face-to-face meetings, to resolve their differences. These consultations are meant to allow parties to air their concerns and seek mutually agreeable solutions before pursuing more formal institutional review under NAFTA. If the parties resolve their differences through consultations, they do not need to go any further in NAFTA's dispute settlement process. If differences are not resolved, the parties can request dispute settlement panel review. For example, seven such prepanel consultations are currently ongoing, one of which recently ended in a mutually acceptable resolution.

Enforcement

The three major dispute settlement provisions of NAFTA are set forth in chapter 19, chapter 20, and chapter 11. These chapters provide mechanisms for dealing with the three primary areas in which disputes can arise, that is, unfair trade practices (chapter 19), the interpretation and application of NAFTA (chapter 20), and the protection of investor rights (chapter 11). NAFTA's chapter 20 also promotes the use of arbitration and other forms of alternative dispute resolution for international commercial disputes between private parties in the free trade area, although it does not prescribe or establish arbitration procedures.

There have been 32 chapter 19 requests for binational panel review as of July 1997, including 14 completed cases with final panel decisions, 9 cases still active, and 9 cases terminated without a decision (see app. IV for more information on completed cases.) There were no requests for Extraordinary Challenge Committee[19] review under NAFTA. Officials from all three countries with whom we spoke considered the chapter 19 process to be working very well. They believed that the final panel decisions made thus far had been balanced and fair and completed in a timely manner.[20] They observed that in their view, concerns about panels voting along na-

[19] While a chapter 19 decision cannot be appealed in domestic courts, involved parties may request a review by an Extraordinary Challenge Committee composed of three judges or former judges selected by the parties.

[20] Our 1995 work on Chapter 19 found some participants had concerns about the panel process, certain panel decisions and how they were arrived at. See *U.S.-Canada Free Trade Agree-*

tional lines or the nature of the panel majority influencing its final outcome have proved to be unfounded. In fact, of the 14 completed panel decisions, 11 (79 percent) were unanimous. Chapter 19 binational panels took 457 days on average to complete cases and issue a final decision. Chapter 19 establishes a 315-day guideline to issue a final decision from the date a panel was requested.[21]

Two requests for chapter 20 panel reviews have been made under NAFTA. In one case, a final panel decision has been issued, and in the other case oral argument has been held. A decision is due by the end of the year. A total of seven prepanel consultations are ongoing, including two in which the United States is the petitioner, and five in which the United States is the respondent. Officials with whom we spoke believed that the chapter 20 prepanel consultation process helped parties avoid formal disputes by allowing them to resolve their differences before requesting a chapter 20 panel. However, Mexican government officials and a member of a U.S. business association operating in Mexico expressed concern that, in their opinion, some of the prepanel consultations under chapter 20, were taking too long. NAFTA provides for no time limits on consultations other than those agreed to by the consulting parties.

Two U.S. firms have filed complaints under the NAFTA chapter 11 investor arbitration clause. In one case a panel convened in July 1997, and in the other case, a panel is still being formed.

Appendix IV further describes the chapters 19, 20, and 11 provisions and provides information on the dispute cases initiated since NAFTA's implementation.

Implementation Progress

According to U.S., Mexican, and Canadian government officials, changes in NAFTA member countries' trade laws precipitated by the agreement have increased the level of transparency in countries' trade remedies determinations, particularly in Mexico. While government officials were generally pleased with the operation of NAFTA's dispute settlement process to date, they expressed some concerns about the panel selection process. In addition, a constitutional challenge to the chapter 19 process is pending in U.S. federal court.

CHANGES IN SIGNATORY TRADE LAWS TO CONFORM TO NAFTA REQUIREMENTS

All three signatories agreed to make changes in their trade remedy laws to comply with NAFTA provisions. For example, NAFTA obligated Mexico to make 21 procedural amendments to its laws. They were intended to reduce the potential for arbitrary antidumping and countervailing duty administrative determinations by increasing the level of transparency in the administrative process. The amendments Mexico was obligated to make to its law included allowing interested parties to fully participate in the administrative process, including the right to administrative and judicial review of final determinations, elimination of the possibility of imposing provisional duties before the issuance of a preliminary determination, and explicit timetables for determining the competent investigating authority and for parties to submit evidence and comments. The United States and Canada included changes required by NAFTA in their implementing legislation, while Mexico amended its new Foreign Trade Law shortly before NAFTA became effective.

In accordance with the NAFTA Implementation Act, the President reported to Congress on December 27, 1993 that Mexico implemented the statutory changes necessary to bring it into compliance with its obligations under NAFTA. In addition, Mexican officials stated that Mexico also amended its foreign investment, telecommunications, and intellectual property laws at that time. Mexico's first trade remedies law, including antidumping and countervailing duty measures, was enacted in 1986 when Mexico joined the General Agreement on Tariffs and Trade (GATT). According to Mexican officials and the U.S. Section NAFTA Secretariat, the law, now in its fourth revision, has dramatically increased the levels of transparency and public participation in Mexico's trade remedies determinations. However, these officials admitted that Mexico's system for finding redress to unfair trade practices was still slow and costly to petitioners.

Canadian officials told us that both U.S.-Canadian Free Trade Agreement and NAFTA provisions on unfair trade practices have encouraged more thorough review

ment, Factors Contributing to Controversy in Appeals of Trade Remedy Cases to Binational Panels (GAO/GGD–95–175BR, June 16, 1995).

[21] According to the NAFTA U.S. Section Secretary, the 315-day guideline does not include the time when the panels are temporarily suspended. Panels can be suspended when a panelist becomes unable to fulfill panel duties or is disqualified due, for example, to a change in circumstances causing the appearance of conflict of interest.

and documentation of original antidumping and countervailing duty cases by Revenue Canada, an agency that administers Canadian trade laws. Prior to these agreements, these same officials said that Revenue Canada's review processes of these cases had been less documented and less subject to outside scrutiny.

Quality of the Operation of Dispute Settlement

In general, U.S., Mexican, and Canadian government officials with whom we spoke were favorably impressed with the operation of the NAFTA dispute settlement process over the past 3½ years. They considered the panelists reviewing the cases brought forward to date to be of high quality, professional, neutral, and unbiased. Panelists, we were told, went out of their way to hear all of the arguments relevant to each case. In addition, they were pleased that panel reviews and decisions were conducted with little attention from the media. Officials observed that the cases that did attract media attention tended to be those concerning issues that had been sensitive long before NAFTA. They further noted that the controversy over these cases concerned the substance of the issues rather than the dispute settlement process itself.

U.S., Canadian, and Mexican business groups we spoke with believed that the dispute settlement framework has provided an orderly, fair, and predictable mechanism with which to resolve differences. One U.S. business association member explained that such a mechanism provided certainty and reduced risk to all participants, thereby facilitating trade among the three countries. Another businessperson noted that the outcome of the panel decisions was not as important as the certainty that the dispute settlement system was unbiased and based upon the rule of law.

Considering the increased trade among the United States, Canada, and Mexico since NAFTA's implementation, many of the private sector and government officials with whom we spoke regarded the number of dispute settlement cases over the past 3½ years to be remarkably low. They attributed this to opportunities to work out differences through the NAFTA working groups and the consultation process built into the dispute settlement process.

Panel Selection

Notwithstanding the support expressed by many business and government representatives for the agreement's dispute settlement process, some participants in the dispute settlement process expressed concern about the timeliness of the panel selection process.

NAFTA's chapter 19 provides that involved parties agree on their selection of panel members within 55 days of the request for a panel. The average delay over and above the required 55 days for panel selection under NAFTA chapter 19 had been 53 days. Participants attributed this delay to the logistics of finding qualified potential panelists, in particular panelists who meet the NAFTA code of conduct that requires that panelists meet certain criteria, including lack of a conflict of interest. One participant cautioned that such delays could potentially cause problems since NAFTA requires the respondent to respond to the complainant's brief within 60 days of the request for a panel. In fact, thus far nine panels have been temporarily suspended to deal with such situations.

In addition, a Canadian official responsible for monitoring NAFTA issues believed that the two cases involving requests for chapter 20 panels had been delayed due to the absence of a chapter 20 roster. Under NAFTA, the chapter 20 panel members are normally to be chosen from a roster agreed upon by all three signatories. Without a roster, panelists in the two cases had to be selected from a general population of potentially eligible panelists. According to a U.S. Trade Representative official, the chapter 20 roster has not yet been formed because the parties could not agree on its composition.

Mexican officials admitted that Mexico's pool of potential panelists was rather limited because Mexican attorneys are still developing expertise in trade dispute matters. Moreover, the limited number of Mexican trade attorneys increases the potential that panelists might represent clients in the industries subject to panel review, a situation not allowed under NAFTA's conflict of interest provisions. Mexican officials explained that their government is making every effort to train more professionals in the area of trade law. For example, the Mexican government is currently sponsoring seminars on trade law and requiring that Mexican universities provide classes in antidumping and countervailing duty law as well as in NAFTA dispute settlement.

CHALLENGE TO CONSTITUTIONALITY OF BINATIONAL PANEL SYSTEM

Critics have questioned whether the chapter 19 binational panel review system, by replacing federal court review with bi-national panel review, violates article III of the U.S. Constitution that provides that judicial power be exercised by U.S. federal courts. They also question whether the chapter 19 system may violate the appointments clause of article II of the U.S. Constitution, which requires that judicial officials be appointed by the President with the advice and consent of the Senate, since chapter 19 panelists are not nominated by the President and confirmed by the Senate. In January of this year, the American Coalition for Competitive Trade [22] filed a lawsuit in the U.S. Court of Appeals for the District of Columbia Circuit charging that chapter 19 violates articles II and III of the U.S. Constitution.

In view of these developments, it is possible that questions concerning the constitutionality of the chapter 19 binational panel review system may be resolved by the federal courts. However, if and when the courts will ultimately decide these issues is uncertain.

IMPLEMENTATION OF ENVIRONMENT AND LABOR AGREEMENTS

During the NAFTA negotiation process, parallel negotiations were undertaken to address environment and labor issues. The two resulting agreements emphasized cooperation to improve environment and labor conditions in North America; they also created mechanisms to address enforcement of environment and labor laws in each of the three countries. After 3½ years of implementation, it is too early to say what definitive effect these side agreements will have on the environment and labor. The commissions set up to implement the two agreements have been acknowledged for their efforts to date to further cooperation in their respective areas, but observers also have concerns about various aspects of the agreements' implementation.

Coverage and Results of the Environmental Agreement [23]

The North American Agreement on Environmental Cooperation signed by Canada, Mexico, and the United States in September 1993, went into effect along with the North American Free Trade Agreement on January 1, 1994. The environmental agreement aims to protect, conserve, and improve the environment through increased cooperation and transparency among the three governments and greater public participation. In addition, the agreement provides citizens and governments an opportunity to file complaints regarding a country's failure to enforce its environmental laws.

The environmental agreement established the Commission for Environmental Cooperation in Montreal to help the three signatory countries achieve the objectives set forth in the agreement. Its organizational structure consists of a Council, a Secretariat, and a Joint Public Advisory Committee. Since 1995, this commission has been funded at approximately $9 million per year, with equal contributions from each member country. In 1996, the commission created a fund for community-based projects in Canada, Mexico, and the United States that promotes the commission's goals and objectives. In 1997, $1.6 million of the annual budget was used for this fund.

Cooperative Efforts

Since its first full year of operation in 1995, the environmental commission has undertaken a work program designed to improve environmental cooperation. Work program areas and examples of projects undertaken by the commission are outlined in table 2.

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[22] The ACCT, a nonprofit organization incorporated under Virginia law, is a coalition of 21 organizations and corporations organized for the purpose of protecting the industrial and agricultural capacity, tax base, and economic well being of the United States.

[23] NAFTA was also accompanied by a bilateral agreement between the United States and Mexico that established the North American Development Bank and the Border Environment Cooperation Commission. The primary goal of these two institutions is to provide seed money for environmental infrastructure and community development projects along the U.S.-Mexico border and to review proposals for such funding. A discussion about the implementation of the North American Development Bank and the Border Environment Cooperation Commission is beyond the scope of this testimony. For a detailed analysis of these two agreements, see *International Environment: Environmental Infrastructure Needs in the U.S.-Mexican Border Region Remain Unmet* (GAO/RCED–96–179, July 22, 1996).

Table 2—Commission for Environmental Cooperation's Regional Cooperation Projects

Work program area	Examples
Conservation	Developing plans to conserve and protect North American birds and monarch butterflies Developed plans to establish a North American Biodiversity Information Network Developed plans to implement strategies to protect regional marine life
Protecting human health and the environment.	Coordinated the development of regional action plans for PCBs, DDT, chlordane, and mercury Coordinate the completion of transboundary environmental impact assessment procedures by April 1998
Environment, trade, and the economy.	Fund and facilitate the creation of an information clearinghouse on environmental technology and services "NAFTA Effects" projects: —Completed NAFTA intergovernmental institutions study in 1997 —Refine the general framework for assessing NAFTA's environmental impacts by completing a study on the environmental effects of the deregulation of the energy and agriculture sectors (expected in 1997)
Enforcement cooperation.	Groups established under this program have met and exchanged information, strategies, and expertise on enforcement, compliance, and legal trends
Information and public outreach.	Complete enhancements to the commission's website that will provide regional information on the environmental dimensions of physical, socioeconomic, and ecological variables (expected in 1997)

Enforcement

The environmental supplemental agreement provides two separate mechanisms regarding a government's failure to enforce its environmental laws: (1) articles 14 and 15 provide for citizen submissions on enforcement matters, and (2) part V provides for government-to-government consultation and resolution of disputes. Environmental officials from Canada and the United States generally believe that the citizen submission process is working well. They believe the submissions are being fairly reviewed by the Secretariat. In Canada, one official commented that this process has even helped the provincial and national environmental agencies harmonize their responsibilities.

Citizen submission process. Under the citizen submission process, a citizen or citizen group may submit a claim to the environment commission's Secretariat that a party to the agreement is failing to effectively enforce its environmental laws. If 2 out of the 3 countries agree that the submission has merit, the commission will prepare a factual record (that is, an investigation of the matter) that could lead to public pressure to improve enforcement. Unlike part V of the agreement for resolving government-to-government environment disputes, the citizens submissions process does not provide this commission with the ability to impose sanctions.

Since the citizen submission process came into effect, 11 submissions have been filed.[24] Of these 11, 3 cases were submitted alleging that the United States had failed to enforce its environmental laws. Of these three submissions, two were terminated because they dealt with legislative changes or new environmental laws rather than nonenforcement,[25] and the third was withdrawn. In this third instance, the submitter alleged that the Department of Defense's expansion of Fort Huachuca, Arizona, would drain the local water supply and destroy the ecosystem that is dependent upon it. In its response, the U.S. government contended it was not failing to enforce environmental law and that the citizen submission did not warrant an

[24] For a listing of all submissions—the country affected, the submitter, and the status—see appendix V.

[25] For example, the case submitted by the Sierra Club and other organizations in August 1995 alleging that the Fiscal Year 1995 Supplemental Appropriations, Disaster Assistance and Rescissions Act contained a rider suspending enforcement of U.S. environmental laws for a logging program was terminated on December 8, 1995 because the Secretariat determined that the case was not a non-enforcement case. The Secretariat's assessment was that these organizations submitted the case as a means of seeking an alternate forum for disputing a U.S. legislative decision.

inquiry to gather factual information. In July 1997, the submitter withdrew the filing, and the process was terminated.

The remaining cases were against Canada and Mexico, with six being filed against Canada and two against Mexico. The case that has proceeded the furthest involves a submission filed by three Mexican nongovernmental organizations in 1996, alleging that the Mexican government failed to effectively enforce its environmental laws regarding the construction and operation of a public harbor terminal in Cozumel. The Secretariat recommended, and the Council approved, that a factual record be prepared in this case. The Secretariat transmitted the final factual record to the Council on July 25, 1997. The Council may, upon a two-thirds vote, make the final record a public document.

Government-to-government disputes. Although a process for consulting on and resolving government-to-government disputes regarding a "persistent pattern of failure to effectively enforce its environmental laws" is called for under the agreement, no rules of procedure for implementing this segment—part V—of the agreement have been established to date.[26] Unlike the citizen submission process identified in articles 14 and 15 of the environmental agreement, part V allows an arbitration panel reviewing the case to impose monetary sanctions or to withdraw NAFTA benefits if it determines that the government against which a complaint was filed persistently failed to enforce its environmental laws. Without rules of procedure, no NAFTA member country can raise a complaint under this section of the environmental agreement, which was designed to help resolve disputes arising between governments.

Implementation Progress and Issues

The environmental commission is credited with making some progress in implementing the environmental agreement. However, implementation issues involving the focus of the commission's cooperative work programs, transparency of the enforcement mechanisms, and the governments' commitment to the agreement remain.

Progress on cooperation and participation. Officials we spoke with at the U.S. and Canadian environmental agencies, as well as at a Mexican nongovernmental organization, were generally pleased with implementation of NAFTA's environmental agreement. According to these officials, the agreement and its commission provide the three countries an opportunity to examine broader, regional environmental objectives and to develop cooperative action plans on agreed-upon priorities. Actions taken by the commission in implementing the environmental agreement are listed in table 2.

Environmental officials in all three NAFTA countries also commented on the increased level of public participation achieved through the agreement. This is especially true in Mexico, according to a Mexican expert we spoke with, who told us that the agreement has given the Mexican government the political will to strengthen its environmental laws and include citizen input. Another Mexican environmental expert has stated that the commission has been an important catalyst for developing a more transparent regulatory process and ensuring a more consistent application of environmental laws in Mexico.

Similar reactions were also expressed by some other environmental experts reviewing implementation of the environmental agreement. In a letter sent to the Council, an independent panel of experts[27] said that the environmental agreement and the commission have done much to develop as an important focus for environmental cooperation and dialogue in North America.

Concerns about work programs and studies. Despite the achievements acknowledged by government officials and experts, some observers have raised concerns about the work undertaken by the commission. For example, Mexican trade officials stressed their concerns about both the process and content of the work program. According to these officials, the commission needs more transparent criteria for its selection and funding of projects, and the Mexican government should have much more input into the funding of projects earlier on in the process. Furthermore, they believe that the commission is funding several environmental projects that are duplicative of some ongoing efforts to improve conditions along the U.S.-Mexico border. The U.S. Environmental Protection Agency has raised other concerns about the process used to determine the studies undertaken by the commission. Specifically,

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[26] According to a U.S. Environmental Protection Agency official, the NAFTA members expect to complete these rules by the end of 1997.

[27] The Commission for Environmental Cooperation Secretariat convened a panel of experts in March 1997 to help it prepare for a mandated internal evaluation. The trinational panel included a U.S. Congressman and was chaired by the United Nations' chief advisor on environmental issues.

an agency official told us that the process used to determine whether or not to prepare a study needs to be more transparent. Canadian trade and environment officials did not express any concerns about the commission's work programs or studies.

Concerns about the citizen submission process. Questions regarding the consistency with which the citizen submission process has been applied, the transparency of this process, and the guidelines developed to implement it were raised by officials we spoke with.

- Mexican officials believe the environment commission has been inconsistent in its handling of the cases filed under the citizen submission process, showing more flexibility towards some governments involved in cases than others. Specifically, they are dissatisfied with the application of the process in the Cozumel public harbor case alleging Mexico's failure to effectively enforce its environmental law.
- Mexican environmental experts believe the environment commission needs to increase the transparency of the submission process. For example, they believe the submitter should be allowed to review a draft of the factual record prepared by the secretariat, as the government is allowed to do, before it is finalized.
- U.S. environmental officials are concerned that the citizen submission guidelines currently allow the submitter to withdraw a filing at will. Once the Secretariat receives notification of the withdrawal, it is required to halt the process of investigation. According to an official at the Environmental Protection Agency, it was a mistake to include such a provision in the guidelines because the process may be halted at any stage regardless of the level of resources the commission and the governments may have put into processing and responding to the allegation. The official told us these guidelines are currently being revised.

Concerns about an independent commission. A panel of experts and officials at the environmental commission we spoke with stressed the importance of improving the commission's independence and its ability to autonomously decide to undertake a study or a work program. Problems associated with this issue arose during the annual program and budget review process in which Mexican government officials withheld their support and approval for a project to study the environmental effects of NAFTA in certain sectors. Officials from Mexico objected to the project because they believed the commission had not adequately consulted them in the identification of the sectors—energy and agriculture—to be studied. While support for the project, referred to as the second phase of the NAFTA Environmental Effects project, was eventually granted for the remainder of 1997, its continuation beyond that was made contingent upon a group of trade and environment officials from each country recommending the terms of reference for future work in this area.

Concerns about national commitment to the environmental agreement. Experts, some government officials, and officials at the commission's secretariat were concerned about what they regard as a low level of national commitment to the environmental agreement. A commission official we spoke with commented that agencies responsible for implementation of the NAFTA environmental agreement in both the United States and Mexico have been constantly understaffed, which has had an adverse impact on the agreement's implementation. For example, Canadian officials told us that without an adequate level of staff to implement the agreement in each country, marketing of the agreement's strengths, its cooperative work efforts, and its enforcement mechanisms suffer. Furthermore, officials we spoke with said that it was surprising that, compared to Canada and Mexico, the United States has consistently had the least number of staff—one—assigned to oversee implementation.

Coverage and Results of the Labor Agreement

The North American Agreement on Labor Cooperation signed by Canada, Mexico, and the United States in September 1993, went into effect on January 1, 1994 along with NAFTA. The agreement aims to improve working conditions and living standards in each country, encourage exchange of information on and foster transparency in the administration of labor law, and pursue cooperative labor-related activities among the three countries. The three governments have also committed themselves to promote compliance with and effectively enforce (subject to domestic law) 11 labor principles, including the freedom of association and protection of the right to organize; the right to bargain collectively and strike; minimum employment standards; elimination of employment discrimination; equal pay for women and men; and protection of migrant workers.

The labor agreement established the Commission for Labor Cooperation in Dallas as a trinational organization responsible for fostering cooperative labor-related activities and performing independent evaluations. The commission was funded in equal parts by the three countries at $1.8 million in 1996. In addition, the labor agreement permits the parties to develop a consultative system to address domestic labor-related issues. This includes a dispute settlement mechanism to address lack of enforcement by a party of certain labor law standards.

Cooperative Efforts

The commission, in order to meet its obligations to pursue cooperative labor-related activities, has completed a number of efforts since it went into operation in September 1995. Examples include those listed in table 3:

Table 3—Commission for Labor Cooperation's Cooperative Efforts

Selected areas of cooperation	Recent examples
Occupational safety and health	North American Occupational Safety and Health Week, held June 1997 simultaneously in each country Completion of "Petrochemical Study Tour" on prevention of catastrophic explosions (October 1996)
Human resource development	Workshop on Continuous Learning and Development in the Workplace (April 1996)
Labor-management relations	Tripartite conference on "Industrial Relations for the 21st Century" (March 1996)
Productivity improvement	North American seminar on incomes and productivity
Labor statistics	Report profiling North American labor markets (June 1997)

Enforcement

The labor agreement provides for a series of processes to ensure the enforcement of each country's labor law, emphasizing cooperation and consultation throughout the various steps. If a person or group wishes to allege that one country has failed to effectively enforce its labor laws, it may file a submission with the National Administrative Office of another country. The National Administrative Office receiving the submission may then investigate the allegation, including holding public hearings to gather information. Consultation with other National Administrative Offices follows if the submission is accepted. The Secretary of the National Administrative Office receiving the submission may then recommend that ministerial consultations take place on the subject. Depending on the nature of the allegation, additional steps in the process could include the formation of an evaluation committee of experts if ministerial consultations have not resolved the issue, as well as other cooperative and consultative steps.

If cooperative efforts to resolve problems fail, the labor agreement provides a dispute settlement mechanism in three instances where a submission involves an allegation of a persistent pattern of failure to effectively enforce labor rights: occupational safety and health, child labor, and minimum wage technical labor standards. In such a case, an arbitration panel may be formed to review the matter and make recommendations for corrective action. Failure of one of the parties to fully implement the panel's recommendations could ultimately lead to a monetary sanction to be placed in a fund to be used to improve or enhance labor law enforcement in the non-conforming country.[28] Failure to pay the monetary sanction could result in suspension of NAFTA benefits.

Eight cases have been submitted since the establishment of the National Administrative Offices. Seven have been submitted to the U.S. National Administrative Office against Mexico, and one has been submitted to Mexico's National Administrative Office against the United States; none have involved Canada. None of the cases submitted so far has fallen in a category of labor principles that could ultimately qualify for dispute settlement and sanctions.[29] A more detailed description of the submissions can be found in appendix VI.

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[28] The North American Agreement of Labor Cooperation provided for a maximum monetary enforcement assessment of $20 million in 1994. In subsequent years, this assessment can be no greater than 0.007 percent of the total trade in goods between the parties during the most recent year for which data are available.

[29] The first seven cases all dealt with the labor principle of freedom of association and the right to organize. Under the North America Agreement on Labor Cooperation, cases of this sort are not eligible for independent evaluation or arbitration. The most recent case involves the

Continued

Implementation Progress and Issues

The labor agreement is the first international agreement to link labor issues to an international trade pact. Recent efforts to link trade agreements and labor issues, building on NAFTA, have proven to be very controversial. For example, at the first ministerial meeting of the World Trade Organization (WTO) at Singapore in December 1996, WTO members rejected a U.S. proposal to create a working group to study the relationship between trade and labor standards. Thus, while the labor agreement is limited in its scope, according to some critics, it remains a visible experiment in the linkage of labor standards to international trade agreements.

Labor officials knowledgeable about the labor agreement in each country told us that they believe that the agreement has had a positive effect on increasing the level of understanding about labor issues in North America—one of its major objectives. Many of the activities associated with the agreement have been focused on improving the level of understanding of each country's labor system because, according to one National Administrative Office Secretary, such understanding has been woefully lacking in the past.

Personnel issues. Difficulty in hiring and retaining staff has been identified as an impediment to the implementation of the labor agreement. The National Administrative Offices in each country went into operation in January 1994 at the same time that NAFTA went into effect. At the first meeting of the commission's Council in March 1994, labor ministers from each country indicated they planned to hire an Executive Director by June 1, 1994. However, the position was not filled until April 1995 due to difficulties in hiring a Canadian Executive Director, according to commission officials. Because of this delay, the commission's opening did not occur until September 1995, almost 2 years after the labor agreement went into effect. In addition, turnover at both Mexico's National Administrative Office and at the labor commission has disturbed the continuity of operations, according to U.S. and Canadian officials. Finally, disparate national treatment in the application of personal taxes for employees at the commission has resulted in different net salaries for each nationality, and has negatively affected both recruiting efforts and morale, according to commission officials.

Budgetary issues. Funding levels for the commission have also been raised as a concern related to the effectiveness of the commission. The NAFTA Implementation Act authorized a U.S. contribution to the commission of $2 million for each of fiscal years 1994 and 1995. Since the burden of funding the commission must be borne equally by each country, this indicated a potential annual commission funding level of $6 million. However, the actual annual commission budget for the past several years has been $1.8 million (U.S. contribution totalling $600,000). A commission official explained that by the time the commission was ready to be funded, Mexico had entered into its financial crisis and requested a temporary funding limit on the commission of $600,000 per country.

The funding limitations are causing concern on the part of some observers that the commission does not have adequate resources to meet its obligations. The Director of the Mexico National Administrative Office told us that while the commission has requested a budget raise from its Secretariat, the Mexican government has decided not to authorize an increase until it has had an opportunity to examine the commission's annual work plan. Commission officials told us that the Canadian government has already appropriated $1 million for its share of the budget and is diverting 40 percent of it to support NAFTA environment efforts to remain in compliance with labor agreement provisions that no country contribute more than any other to support the commission.

Thank you Mr. Chairman, this concludes our prepared remarks. We will be happy to answer any questions you or Members of the Subcommittee may have.

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labor principle of the elimination of employment discrimination, which is eligible for independent evaluation, but not arbitration.

APPENDIX I—SELECTED STATISTICS ON NAFTA MEMBER COUNTRIES

	United States	Canada	Mexico
Population (1995, in millions)	263	30	92
Per capita GNP (1995, PPP dollars)[a]	$26,980	$21,130	$6,400
Average annual growth rate of real per capita GNP, 1985–95 (percent)	1.4	0.4	0.1
Average annual inflation rate, 1985–95 (percent)	3.2	2.9	36.7
Investment as a percent of GDP, 1995	16	19	15
Exports to U.S. as a percent of total exports, 1995	....	80	84
Total trade as a percent of GDP, 1995[b]	24	71	48

Legend:

GDP = gross domestic product
GNP = gross national product
PPP = purchasing power parity

[a] Purchasing power parity is defined as the number of units of a country's currency required to buy the same amounts of goods and services in the domestic market as US $1 would buy in the United States.

[b] Total trade share in GDP equals exports and imports of goods and services as a percentage of gross domestic product.

Source: World Bank Atlas, 1997.

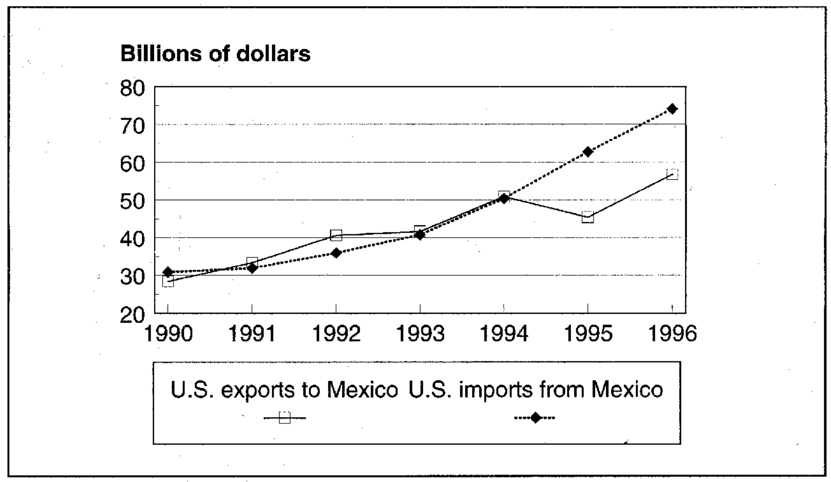
APPENDIX II—MERCHANDISE TRADE RELATIONSHIP BETWEEN NAFTA MEMBERS, 1991–93 AND 1994–96

	Annual average		Annual average growth rate (percent)	
	1991–93	1994–96	1991–93	1994–96
U.S. exports to:				
Canada	$91.8	$124.3	6.5	9.8
Mexico	38.5	51.0	13.9	12.1
Canada and Mexico	130.3	175.3	8.4	10.2
World—excluding Canada and Mexico	314.5	397.3	4.7	10.4
U.S. imports from:				
Canada	$102.9	$146.7	6.7	12.1
Mexico	36.2	62.4	9.9	22.1
Canada and Mexico	139.1	209.1	7.5	14.9
World—excluding Canada and Mexico	414.9	550.3	4.4	9.5
U.S. total trade with:				
Canada	$194.7	$271.0	6.6	11.0
Mexico	74.7	113.4	11.7	16.9
Canada and Mexico	269.4	384.4	7.9	12.7
World—excluding Canada and Mexico	729.4	947.6	4.5	9.8

Source: International Monetary Fund, *Direction of Trade Statistics*, 1997.

APPENDIX III

U.S. MERCHANDISE TRADE WITH MEXICO, 1990-96



Source: International Monetary Fund, Direction of Trade Statistics, 1997.

Appendix IV

NAFTA Dispute Cases

NAFTA chapters 19, 20, and 11, respectively, deal with the three primary areas in which disputes can arise—unfair trade practices, the interpretation and application of NAFTA, and the protection of investor rights. In the 3½ years since NAFTA's implementation, dispute cases have arisen in all three areas. A brief description of the three chapters' provisions and information about the dispute cases initiated to date are provided in the following paragraphs.

Chapter 19

Chapter 19 lays out the system for the review of antidumping and countervailing duty final determinations made by the domestic agency of the importing country in the dispute.[3] Chapter 19 replaces domestic judicial review of those final administrative determinations with binational[31] panel review. Five-member binational panels of experts chosen from rosters developed by each of the three signatories review the determinations and issue final decisions. Panels apply the law of the country whose agency is under review. These panels usually consist of lawyers, sitting or retired judges, former government officials, noted academics, and others who specialize in

[30] Antidumping and countervailing duty laws in the United States are administered jointly by the U.S. International Trade Commission and the U.S. Department of Commerce, and in Canada and Mexico respectively by Revenue Canada and SECOFI (Subsecretaria de Negociaciones Comerciales Internacionales.)

Dumping is the sale of commodities in a foreign market at a price that is lower than the price or value of comparable commodities in the country of origin. A countervailing duty is a U.S. government fee on goods imported into the United States in an amount equal to any subsidy provided with respect to manufacture, production, or export of those goods by a government of another country.

[31] Panels are binational because they are comprised of members from the country of the petitioning party and the responding party in the case.

trade dispute settlement and international affairs. Panels may either uphold a determination or remand[32] it to the investigating authority. The panel's decision on the case is final and binding and cannot be appealed in the domestic courts. In certain extraordinary circumstances, such as the gross misconduct of a panel member, a party involved in a chapter 19 dispute can request that a final panel decision be reviewed by an Extraordinary Challenge Committee. Table IV.1 provides information on the chapter 19 NAFTA dispute settlement cases for which there were final panel decisions.

[32] A remand is a court or panel decision returning a determination to an agency for further action. Remands can request that agencies explain determinations, provide more information, or make corrections.

APPENDIX IV

Table IV.1: Completed NAFTA Chapter 19 Binational Panel Reviews Through August 1997

Case identification (in descending order)	Commodity	Type of determination by domestic agency	Nationality of appealing parties	Panel majority	Total number of days to complete[a]	Unanimous decisions?	Results of panel decisions
USA-95-1904-05	Fresh cut flowers from Mexico	Dumping	Mexican	Mex.	505	Yes	Reduced duties for 3 producers from 39.95% to 18.20%
USA-95-1904-04	Oil country tubular goods from Mexico	Dumping	Mexican & U.S.	U.S.	511	Yes	Reduced duties for all producers from 23.79% to 21.70%
USA-95-1904-03	Color picture tubes from Canada	Dumping	Canadian	Can.	326	Yes	Affirmed domestic agency determination
USA-95-1904-02	Gray Portland cement & cement clinker from Mexico	Dumping	Mexican	U.S.	467	Yes	Affirmed domestic agency determination
USA-95-1904-01	Porcelain-on-steel cookingware from Mexico	Dumping	Mexican & U.S.	U.S.	541	Yes	Agency instructed to adjust methodology for determining rebated or uncollected value-added tax
USA-94-1904-02	Leather wearing apparel from Mexico	Countervailing duties (CVD)	Mexican	Mex.	400	Yes	Duty lowered from 13.35% ad valorem to none for 2 producers
USA-94-1904-01	Live swine from Canada	Countervailing duties	Canadian	U.S.	560	Yes	Reinstated the sows and boars subclass and set a separate CVD rate for it.
MEX-94-1904-03	Crystal and solid polystyrene from U.S.	Dumping	U.S.	Mex.	654	No	Affirmed domestic agency determination
MEX-94-1904-02	Cut-to-length plate products from U.S.	Dumping	U.S.	U.S.	436	No	Domestic agency determination declared null and void and duties revoked.
CDA-95-1904-04	Refined sugar from U.S.	Dumping	U.S.	U.S.	451	Yes	Panel's remand did not result in any change in the domestic agency's determination
CDA-95-1904-01	Certain malt beverages from U.S.	Injury	Canadian	Can.	327	Yes	Affirmed domestic agency determination
CDA-94-1904-04	Certain corrosion-resistant steel sheet products from U.S.	Injury	U.S.	Can.	324	Yes	Affirmed domestic agency determination
CDA-94-1904-03	Certain corrosion-resistant steel sheet products from U.S.	Dumping	U.S.	U.S.	459	No	Duty for one importer decreased from 13.2 percent to 13.1 percent; duty for another importer increased from 8.4 percent to 8.5 percent.
CDA-94-1904-02	Synthetic baler twine from U.S.	Injury	Canadian & U.S.	U.S.	439	Yes	Panel's remand did not result in any change in the domestic agency's injury determination

Note: Cases terminated, with no panel decisions, are not included in this table.

[a] Actual calendar days from the date on which a request for panel was made to the date of notice of final panel action.

Sources: U.S. Section NAFTA Secretariat; text of final panel decisions; and Federal Register Notices.

Appendix IV

CHAPTER 20

Chapter 20 establishes NAFTA's procedures for settling disputes between the signatory governments regarding NAFTA's interpretation and application. Chapter 20's dispute settlement provides for (1) consultations between disputing parties to resolve their disagreement and, if that fails, referral of the dispute to the Free Trade

Commission; (2) referral of the dispute to a panel of independent experts; (3) dissemination of panel findings and recommendations; (4) resolution of the dispute through nonimplementation or removal of the nonconforming measure; and (5) suspension of application of benefits by the complaining party if agreement on resolution to the dispute cannot be reached. Chapter 20 panels are chosen from a roster of experts agreed upon by the three signatories. Table IV.2 provides information on the chapter 20 disputes initiated under NAFTA.

Table IV.2—NAFTA Chapter 20 Dispute Cases Through August 1997

Petitioner	Respondent	Subject of dispute	Status
United States	Canada	Tariffs applied by Canada to certain U.S.-origin agricultural goods.	Final panel decision to maintain Canadian tariffs, issued December 2, 1997
United States	Mexico	Retaliatory action in response to U.S. safeguard action on broomcorn brooms.	Prepanel consultations ongoing
United States	Mexico	Small parcel delivery (UPS)	Prepanel consultations ongoing
Mexico	United States	U.S. Customs classifications of limes imported from Mexico.	Prepanel consultations ongoing
Mexico	United States	Requests for designation of Mexicali valley as disease-free area.	Prepanel consultations deferred pending discussions with USDA
Canada	United States	The U.S. Sugar Containing Products Re-export Program.	Prepanel consultations ongoing
Mexico	United States	U.S. International Trade Commission serious injury determination on broomcorn brooms.	Chapter 20 panel established on January 14, 1997, and is in the process of reaching a decision
Mexico and Canada.	United States	Titles III and IV of the Helms-Burton Act.	Prepanel consultations in April/May 1996 under NAFTA chapter 20. WTO (World Trade Organization) dispute settlement panel established through European Union (EU) protest in November 1996. EU/U.S. agreement in April 1997 to suspend WTO panel until October 15, 1997. EU/U.S. talks ongoing
Mexico	United States	Implementation of NAFTA provisions on trucking.	Prepanel consultations ongoing

Legend:

USDA = U.S. Department of Agriculture
Source: Office of the United States Trade Representative.

Appendix IV

CHAPTER 11

NAFTA is unique among trade agreements because, under chapter 11, it contains a comprehensive regime for settling disputes between foreign investors and host governments. International trade agreements have generally concentrated on removing government barriers to trade in goods and services and not on resolving disputes between private parties or regarding investment issues. Chapter 11 makes investor-state disputes subject to binding arbitration for monetary compensation. If a dispute is not resolved through consultations, the investor may seek arbitration through a World Bank facility or through ad hoc proceedings under United Nations arbitration rules. Table IV.3 shows the status of the chapter 11 cases brought forward under NAFTA.

Table IV.3—Complaints Filed under NAFTA's Chapter 11 Investor-State Arbitration Clause Through August 1997

Petitioner	Respondent	Subject of dispute	Status
Metalclad Corporation (U.S. company).	Mexican government	Mexico's expropriation of Metalclad's hazardous waste landfill in the community of Guadalcazar, Mexico, in the state of San Luis Potosi.	Three-member arbitration panel formed and convened
Desechos Solidos de Naucalpan (U.S. company).	Mexican government	Mexico's nullification of an agreement to manage solid waste in the state of Mexico.	A panel is being formed

Source: Office of the United States Trade Representative.

APPENDIX V

CITIZEN SUBMISSIONS UNDER THE
NORTH AMERICAN AGREEMENT ON ENVIRONMENTAL COOPERATION

Case no.	Country	Submitter(s) and year filed	Complaint	Status
1	United States	Biodiversity Legal Foundation, et al. (1995)	Provisions of a U.S. rescissions act have resulted in a failure to effectively enforce some provisions of the Endangered Species Act	Process terminated–Secretariat determined government response not merited
2	United States	Sierra Club, et al. in the U.S., and Canadian and Mexican environmental groups (1995)	Legislation passed by the U.S. Congress is alleged to include a rider that suspends enforcement of environmental laws for a logging program on U.S. public lands	Process terminated–Secretariat determined submission criteria not met
3	Mexico	Comité para la Protección de los Recursos Naturales, A.C., et al. (1996)	A public harbor terminal for tourist cruises on the island of Cozumel was initiated without a declaration of environmental impact	Factual record prepared. Council will determine whether to make public
4	Canada	Mr. Aage Tottrup, P. Eng (1996)	Failure to enforce Canadian and Alberta environmental laws resulting in the pollution of wetlands impacting fish and migratory bird habitats	Process terminated–Secretariat determined government response not merited
5	Canada	Friends of the Old Man River (1996)	Failure to enforce habitat protection sections of the Canadian Fisheries Act and the Canadian Environmental Assessment Act and charges that there has been a de facto abdication of legal responsibility by the Canadian and provincial governments	Process terminated–Secretariat determined factual record not warranted
6	United States	The Southwest Center for Biological Diversity, et al. (1996)	Fort Huachuca (AZ) base expansion will drain local water supply and destroy ecosystem dependent on it (San Pedro Reservoir)	Process terminated–Submitter withdrew after Secretariat reviewed U.S. government response
7	Canada	British Columbia Aboriginal Fisheries Commission, et al (1997)	Failure to enforce the Canadian Fisheries Act and failure to protect fish and fish habitat in British Columbia from hydro-electric dam	Secretariat reviewing submission in light of Canadian response
8	Mexico	Comité pro Limpieza del Rio Magdalena (1997)	Failure to enforce Mexican environmental legislation governing the disposal of wastewater into the Magdalena River in the state of Sonora	Secretariat reviewing

APPENDIX V

9	Canada	Centre Quebecois du Droit de L'environement, et al. (1997)	Failure to enforce environmental standards related to agriculture, especially hog farms	Secretariat requested and is awaiting Canadian response
10	Canada	Canadian Environmental Defense Fund (1997)	Failure to conduct an environmental assessment of "The Atlantic Groundfish Strategy" jeopardizes the future of Canadian East Coast fisheries	Secretariat determined submission criteria not met; submitter has 30 days to resubmit filing
11	Canada	Animal Alliance of Canada, et al. (1997)	Canada has yet to fulfill one of its main requirements under the Biodiversity Convention–to pass endangered species legislation or regulations	Secretariat reviewing

APPENDIX VI

LABOR SUBMISSIONS UNDER THE NORTH AMERICAN AGREEMENT ON LABOR COOPERATION

Case no.	Submitted by	Issue	Status
1	International Brotherhood of Teamsters	In late 1993, Honeywell Manufacturas de Chihuahua allegedly fired about 20 employees involved in union organization. Management allegedly pressured these workers into signing resignation forms, accepting the statutory severance pay, and relinquishing claims for reinstatement	The U.S. National Administrative Office concluded that the information in both submissions was insufficient to establish that the government of Mexico failed to enforce its labor laws. The Secretary of Labor proposed to the governments of Mexico and Canada the development of a comprehensive cooperative program to address these issues
2	United Electrical, Radio and Machine Workers of America		
3	International Labor Rights Education and Research Fund, National Association of Democratic Lawyers of Mexico, Coalition for Justice in the Maquiladoras, and the American Friends Service Committee	Workers at a plant of Sony Corporation (Magneticos de Mexico) in Nuevo Laredo, Tamaulipas, Mexico, were allegedly intimidated, pressured, and dismissed by the company when they attempted to organize a union	After holding a public hearing, the U.S. National Administrative Office recommended ministerial consultations, which resulted in a series of seminars and other activities designed to address the issue of union registration in Mexico. A followup review conducted by the National Administrative Office was issued in December 1996
4	United Electrical, Radio and Machine Workers of America	The case concerned the alleged violation of freedom of association and the right to organize by a General Electric Company subsidiary in Mexico	The union withdrew the submission prior to the completion of the review process
5	Telephone Workers Union of the Republic of Mexico	The submission concerned the closure of a Sprint Corporation subsidiary in San Francisco prior to a scheduled election on union representation	Mexico's National Administrative Office requested ministerial consultations. These led to a public forum and a report on the effects of sudden plant closings on freedom of association in each country, issued by the Commission for Labor Cooperation in June 1997

APPENDIX VI

6	Human Rights Watch/Americas, International Labor Rights Fund, and the National Association of Democratic Lawyers of Mexico	When employees of the Mexican federal government's Single Trade Union of Workers of the Fishing Ministry attempted to receive recognition for their union, the Mexican government allegedly violated their freedom of association and the right to organize	After holding a hearing, the U.S. National Administrative Office recommended ministerial consultations on the relationship between international treaties, constitutional provisions, and domestic law protecting freedom of association. On September 3, 1997, the labor three ministers agreed to conduct a formal exchange of information and hold a public conference on issues raised by the case
7	Communications Workers of America, Union of Telephone Workers of Mexico, and the Federation of Unions of Goods and Services Companies of Mexico	When workers at Maxi-Switch in Cananea, Sonora, Mexico, organized a union, the company's management allegedly threatened and intimidated them, creating a nonexistent "phantom union" in order to avoid bargaining with the workers' union	Before the scheduled hearing, the submitters withdrew the submission after resolving the dispute to their satisfaction
8	Human Rights Watch, International Labor Rights Fund, National Association of Democratic Lawyers of Mexico	The submission contains allegations about discrimination against female employees in Mexico's export processing (maquiladora) sector, including mistreating or discharging pregnant employees in order to avoid paying maternity benefits	The U.S. National Administrative Office has accepted the submission for review and is gathering information on the case before determining if ministerial consultations should be requested

Related GAO Products

Trade Liberalization: Western Hemisphere Trade Issues Confronting the United States (GAO/NSIAD–97–119, July 21, 1997).

Commercial Trucking: Safety Concerns About Mexican Trucks Remain Even as Inspection Activity Increases (GAO/RCED–97–68, Apr. 9, 1997).

International Environment: Environmental Infrastructure Needs in the U.S.-Mexican Border Region Remain Unmet (GAO/RCED–96–179, July 22, 1996).

Commercial Trucking: Safety and Infrastructure Issues Under the North American Free Trade Agreement (GAO/RCED–96–61, Feb. 29, 1996).

Mexico's Financial Crisis: Origins, Awareness, Assistance, and Efforts to Recover (GAO/GGD–96–56, Feb. 23, 1996).

U.S.-Canada Free Trade Agreement, Factors Contributing to Controversy in Appeals of Trade Remedy Cases to Binational Panels (GAO/GGD–95–175BR, June 16, 1995).

Dislocated Workers: An Early Look at the NAFTA Transitional Adjustment Assistance Program (GAO/HEHS–95–31, Nov. 18, 1994).

NAFTA: Structure and Status of Implementing Organizations (GAO/GGD–95–10BR, Oct. 7, 1994).

Dislocated Workers: Proposed Re-employment Assistance Program (GAO/HRD–94–61, Nov. 12, 1993).

Dislocated Workers: Trade Adjustment Assistance Program Flawed (GAO/T–HRD–94–4, Oct. 19, 1993).

North American Free Trade Agreement: Assessment of Major Issues (GAO/GGD–93–137, Sept. 9, 1993, 2 vols.).

U.S.-Mexico Trade: The Maquiladora Industry and U.S. Employment (GAO/GGD–93–129, July 20, 1993).

NAFTA: Issues Related to Textile/Apparel and Auto and Auto Parts Industries (GAO/T–GGD–93–27, May 5, 1993).

U.S. Trade Data: Limitations of U.S. Statistics on Trade with Mexico (GAO/GGD–93–25, Apr. 28, 1993).

CFTA/NAFTA: Agricultural Safeguards (GAO/GGD–93–14R, Mar. 18, 1993).

Pesticides: U.S. and Mexican Fruit and Vegetable Pesticide Programs Differ (GAO–T–RCED–93–9, Feb. 18, 1993).
U.S.-Canada Trade (GAO–GGD–93–10R, Dec. 12, 1992).
Dislocated Workers: Improvements Needed in Trade Adjustment Assistance Certification Process (GAO/HRD–93–36, Oct. 19, 1992).
International Trade: Implementation of the U.S.-Canada Free Trade Agreement (GAO/GGD–93–21, Oct. 10, 1992).
North American Free Trade Agreement: U.S.-Mexican Trade and Investment Data (GAO/GGD–92–131, Sept. 25, 1992).
Dislocated Workers: Comparison of Assistance Programs (GAO/HRD–92–153BR, Sept. 10, 1992).
U.S.-Mexico Trade: Assessment of Mexico's Environmental Controls for New Companies (GAO/GGD–92–113, Aug. 3, 1992).
Pesticides: Comparison of U.S. and Mexican Pesticide Standards and Enforcement (GAO/RCED–92–140, June 17, 1992).
Mexican Oil: Issues Affecting Potential U.S. Trade and Investment (GAO/NSIAD–*92–169, Mar. 18, 1992).*

Chairman CRANE. Thank you, JayEtta.
Mr. Weintraub.

STATEMENT OF SIDNEY WEINTRAUB, WILLIAM E. SIMON CHAIR IN POLITICAL ECONOMY, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Mr. WEINTRAUB. Thank you, Mr. Chairman. I'm pleased to be here. I'm pleased to be able to make this statement.

I am going to focus on one issue, and this has to do with the job situation in the United States because the principal criticism made against NAFTA has been in the area of jobs. If you want to explore other areas, and if we have time later, I'd be quite pleased to do so.

I will start out with the comment that really the most salient, most important, economic fact of the current situation in the United States is the remarkably low level of unemployment in the country. We've had steady economic growth now going into its seventh year, and an astounding level of job creation, in the neighborhood of 2.5 million jobs a year, and this is being done with very low inflation.

I don't think we've discovered the elixir of indefinite growth without inflation. I think problems will arise, but right now, even the most dire pessimists who follow the U.S. economy must admit that we are more or less at full employment in the United States.

Please consider what full employment means. It means that the United States cannot create any significant number of new jobs without stimulating higher inflation. It means, for the economy as a whole, we are not losing jobs as a result of trade because the country is creating as many jobs as there are takers without stimulating inflation. For the country as a whole, there cannot have been hundreds of thousands of job losses from NAFTA; we wouldn't be at full employment if there had been.

I want to repeat this over and over again because every time the major critics of NAFTA point to job losses in the overall economy, they should be challenged on the basis of credibility, given the situation that exists in the United States. Now, as Ms. Hecker said, NAFTA doesn't deserve the credit for this any more than any other single factor. Our job-creating engine has been the U.S. macroeconomy. This has been what has been leading to job creation. Regarding NAFTA—I don't know what the numbers are and how many jobs may have been lost as a result of some of that trade, how many have been created. I agree with Ms. Hecker that the methodologies for calculating this are weak, but the figures on either job creation or job loss from NAFTA are not terribly great compared to what the U.S. economy accomplishes.

If the protectionists had their way, if higher barriers were put on imports from Mexico and other countries, this would actually compromise the ability to create all these new jobs without inflation. A tariff or a quota is a tax on consumption, and this would surely have an adverse effect on the price level. If this happened, the Federal Reserve would have to take action to deal with that kind of problem. I guess my point is that one of the surest ways to kill the goose that lays the golden egg of job creation is to tax the job-creating conditions out of existence by higher import barriers.

Let me conclude with one point, that I hope I'm not being misinterpreted. I am not saying that individuals in individual communities have not lost jobs as a result of imports. There are also people who have gained jobs as a result of exports. I'm saying that the country as a whole has not lost jobs as a result of the NAFTA, and the fact that we're at full employment makes this clear.

I think we owe those who are hurt in the process of increased imports, or as a result of changes that take place within the domestic economy, some form of meaningful assistance, but this is a different kind of job loss from what the economy as a whole has been accomplishing.

One final point that I'd like to make: Our neighborhood is really quite important to us, and our neighborhood is Mexico and Canada. Our exports to Mexico and Canada combined are larger, are greater, than our exports to all of Europe. If our neighborhood were not prosperous, this would not take place. Mexico a few years ago, in 1995, went through perhaps the worst depression in its modern history. It recovered in 1 year. In the last quarter, the GDP growth rate was 8 percent. In other words, I think Mexico is now following a policy that can help it and help our neighborhood as a whole, and I hope we realize that this is in our interest, as well as Mexico's.

Thank you.

[The prepared statement follows:]

Statement of Sidney Weintraub, William E. Simon Chair in Political Economy, Center for Strategic and International Studies

THE OPERATION AND EFFECTS OF NAFTA

I am pleased to be able to give this testimony on the effects of NAFTA a little more than three and one-half years into its existence because it provides an opportunity to set the record straight on perhaps the most important issue that concerns the U.S. public. This is the effect of NAFTA on overall U.S. employment.

Before I get into the main and really only theme of this statement, I wish to comment on a few important misconceptions that have become accepted wisdom about NAFTA's effects.

1. Public opinion polls indicate that there is a pervasive feeling among the majority of the U.S. public that there is little benefit for the United States in cementing close trade relations with developing countries. In point of fact, the fastest growing U.S. markets are in developing countries. My purpose here is not to discuss the proposed Free Trade Area of the Americas, but the most rapid growth of U.S. exports is in the Western Hemisphere.

2. With respect to Mexico in particular, the contention of opponents of NAFTA is that the country is too poor and its income too unequal for it ever to become an important market for U.S. exports. Mexico, in fact, has this year become the second most important market for U.S. exports after Canada.

3. We are told by opponents of free trade with developing countries that this will result inevitably in U.S. trade deficits with those countries because their wages are so much lower than in the United States. Our largest bilateral trade deficits are with Japan and Canada, each a high-wage, industrialized country; and with China and Mexico, both much lower-wage, underdeveloped countries. It is evident to anybody prepared to scan the world for U.S. trade performance that there is no clear picture of U.S. exports to and imports from individual countries based solely on wage levels. Trade levels, both imports and exports, depend on so many things that singling out wages as the explanatory factor is simply wrong-headed.

Why do these unfounded perceptions persist? There are two solid reasons. The first is that there has been a steady, anti-trade drumbeat by opponents of open markets. The second has been the unwillingness of many of our political leaders, from both parties, to speak out against protectionism. I hope this will change, stimulated by the work of this subcommittee.

Now to my main theme.

Perhaps the most salient single economic fact of the current situation in the United States is the remarkably low level of unemployment. This has resulted from steady economic growth coupled with an astounding level of job creation. This is being accomplished with low inflation. I am not one who believes that we have discovered the utopia of ending economic ups and downs, or that we will grow indefinitely without inflation. But even the most dire pessimists must admit that the United States is now at full employment.

Please consider what full employment means. This means that we cannot create any significant number of new jobs without stimulating higher inflation. It means that we are not losing jobs as a result of trade because the country is creating as many jobs as there are takers without stimulating inflation. This gives the lie to those who assert that NAFTA has resulted in hundreds of thousands of job losses. NAFTA could not have done this because the country is at full employment. I want to repeat this simple truth over and over again so that each time some critic of open trade talks about job losses, a direct challenge to his or her credibility is forthcoming.

NAFTA obviously does not deserve the credit for the two and one-million or so jobs that have been created each year since it came into effect. This was accomplished by the job-creating power of the prosperous U.S. economy.

I have no doubt that if the protectionists have their way, if higher barriers are put on imports from Mexico and other countries, this would compromise the ability to create all these new jobs without stimulating inflation. A tariff is a tax on consumption and this surely would have its adverse effect on the price level. If this happened, the Federal Reserve would have to take action to restrict growth, presumably by raising interest rates. One of the surest ways to kill the goose that lays the golden egg of job creation is to tax the job-creating conditions out of existence by higher tariffs and import barriers.

I hope that those who listen to or read this testimony including the media do not misinterpret what I am saying. My point is that the country as a whole cannot have lost jobs as a result of NAFTA. The existence of full employment is conclusive evidence of this. Individuals may have lost jobs because of a host of causes, such as increased imports, the shift in production from one part of the country to another or out of the country, changes in technology that disadvantage persons who do not have the needed skills. But many more jobs are being created than are being lost and employment cannot increase significantly for the nation as a whole without stimulating inflation. I think we owe those who are hurt in this process, those who do lose whether from imports or changes taking place within the domestic economy, some form of meaningful assistance. This kind of job loss that should be dealt with by special adjustment assistance is quite different from arguing that protectionism is the way to sustain jobs or create new ones for the country as a whole.

My view is that NAFTA has worked remarkably well since its inception. Mexico faced a horrible period in 1995 for reasons unrelated to NAFTA, but its recovery has been both rapid and robust. NAFTA made it necessary for Mexico to deal with its problems by means other than import restrictions and this is one reason for the rapid recovery. The ability to export to the U.S. market when its domestic market dried up permitted the economic turnaround to take place. Mexico last year grew by more than 5 percent. Its gross domestic product is growing even faster this year. So, too, are U.S. exports to Mexico growing as a consequence of its rapid recovery.

Our neighborhood is important to us. Our northern neighbor, Canada, is far and away the largest market for U.S. exports. Mexico, which has long been our third largest market after Canada and Jahigh economic growth is sucking in U.S. imports. We export more merchandise to our two NAFTA partners than we do to all of Europe. This situation can continue as long as our two neighbors prosper, and NAFTA contributes to this prosperity.

Sidney Weintraub holds the William E. Simon Chair in Political Economy at the Center for Strategic and International Studies in Washington, D.C.

Mr. CAMP [presiding]. Thank you very much.
Mr. Sweeney.

STATEMENT OF JOHN P. SWEENEY, POLICY ANALYST, INTERNATIONAL TRADE AND INTER-AMERICAN ISSUES, HERITAGE FOUNDATION

Mr. JACK SWEENEY. Thank you for the invitation to appear here today. It's a pleasure to speak about NAFTA.

It's interesting that for the past 4 years there has been a steady barrage of criticism against NAFTA. It has become the "betten noir" of free trade, a thing everybody focuses on when trying to attack trade agreements and the benefits they bring to the American economy. And, yet, the data compiled during NAFTA's first 3 years clearly shows that the attacks against NAFTA are based on faulty premises that the data simply do not support.

Despite the doomsday warnings about what would happen under NAFTA, hundreds of thousands of U.S. jobs have not been destroyed. The U.S. manufacturing base has not been weakened, and U.S. sovereignty has not been undermined. Instead, total NAFTA trade has increased; U.S. exports and employment levels have risen significantly since 1992, and the average living standards of American workers have also improved.

Much more can be done in terms of improving NAFTA and its commercial aspects, and in terms of building a better relationship with Mexico, but NAFTA has been instrumental in the strides Mexico has made in liberalizing its economy, and it's one of the reasons, a very good reason, why Mexico is taking more effective steps to reform its political system.

Under NAFTA, total North American trade has increased significantly, gaining $127 billion or 43 percent during NAFTA's first 3 years alone. If that gain had been with a single country, it would make that country the fourth largest trading partner of the United States.

Moreover, repeating what Sidney said previously, in 1996 United States exports to Canada and Mexico totaling $190 billion exceeded United States exports to any other area of the world, including the entire Pacific rim and all of Europe. Today, Mexico and Canada purchase $3 out of every $10 of exports the United States realizes and supplies $3 out of every $10 of the imports that the United States effects.

United States exports to both Mexico and Canada have grown impressively since 1993. In the testimony that I submitted for the written record, I attached some tables, state-by-state exports, that we're using basically as worksheets at the foundation, where we're studying the state-by-state effect of trade. These are quoted in thousands of nominal dollars. They haven't been adjusted for inflation, but, basically, the data supports our contention that NAFTA has benefited the majority of America's 50 States.

Moreover, if you look at the gain in trade from America to Canada, and you keep in mind that the United States-Canada Free Trade Agreement has been in effect since 1988, and, therefore, has been in existence longer than NAFTA per se, I think the future augers well for increased trade with the United States and Mexico. In fact, even though 39 out of 50 States reported increases during NAFTA's first 3 years, increases in exports to Mexico, in 1996, 44 out of 50 States reported an increase in exports to Mexico.

Now touching on the issue of jobs, I think NAFTA has shattered the myth that U.S. trade deficits destroy U.S. jobs. This is one of the enduring and most destructive myths in the American trade debate. It simply isn't true. As my colleague here said, employment in this country is measured by macroeconomic results, macroeconomic issues, mostly monetary policy, not by whether we export more or import more.

And if you look at the combined United States trade deficit with Canada and Mexico during the first 3 years of NAFTA's implementation, it increased from $9 billion in 1992 to nearly $40 billion in 1996, and yet during this period the United States economy created 12 million net new jobs, more than any other economy in the world, more than the entire European Union put together. Moreover, manufacturing employment grew from 16.9 million in 1992 to 18.3 million in 1993, an increase of 1.4 million net new jobs after more than 15 years of steady decline.

The living standards of American workers have improved. One review of pre- and post-NAFTA growth rates in U.S. standards of living shows that the rate of increase in personal wealth has more than tripled since NAFTA was implemented. Now is this because of NAFTA? No, as Sidney said, I don't think we can attribute it exclusively to a single trade agreement, but certainly under NAFTA, under the WTO, under the trade liberalization and export growth that we've enjoyed, we've seen the living standards of American consumers, families and workers, improve. We have measured this in terms of inflation adjusted gross domestic product per capita. We've seen it measured in disposable personal income growth and in personal consumption expenditures. And in all three, the rate of growth has more than tripled since 1993 compared to the previous 3-year period.

Therefore, the data on trade, production, and employment growth for NAFTA's first 3 years quantify objectively that NAFTA is good for the United States. Congress should have no doubts about the success of NAFTA. Although it is only 3 years old, this international trade agreement is growing with amazing speed. Even though 3 years may seem like too little time to reach any final judgments about NAFTA, it is fairly clear that critics of this agreement have been wrong on all counts.

Congress will be acting in the U.S. national interest, and in the interest of the American people, when it approves a new fast track negotiating authority, so that President Clinton can put U.S. trade policy back on track around the world.

Thank you.

[The prepared statement and attachments follow:]

Statement of John P. Sweeney, Policy Analyst, International Trade and Latin American Issues, Heritage Foundation

In July, the Clinton Administration provided Congress with a report on the first three years of implementation of the NAFTA. The Administration claimed in this report that NAFTA has had "a modest positive effect on U.S. net exports, income, investment, and jobs supported by exports." One cannot help but wonder if the Administration's decision to downplay the impressive results of NAFTA's first three years is due in some measure to the fact that the president painted himself into a corner in 1993 by making outlandish claims about the number of U.S. jobs that NAFTA allegedly would create almost immediately.

For over four years now, protectionists, nativists and other critics of free trade have maintained a barrage of attacks against NAFTA. The data compiled during NAFTA's first three years clearly shows that the attacks against NAFTA are based on falsehoods. Despite the doomsday warnings about what would happen under NAFTA, hundreds of thousands of U.S. jobs have not been destroyed, the U.S. manufacturing base has not been weakened, and U.S. sovereignty has not been undermined. Instead, total NAFTA trade has increased, U.S. exports and employment levels have risen significantly, and the average living standards of American workers have improved.

Indeed, if NAFTA were to be graded on its effects after only three years, it would receive an "A+" for enhancing the level of trade between the United States and its North American neighbors; an "A+" for increasing the number of U.S. jobs that support this increased trade; an "A+" for its positive impact on manufacturing and on the personal income of American workers; and a "B" both for encouraging U.S. compliance with implementation of NAFTA's deadlines and for improving U.S. relations with Mexico in general.

Finally, although much more can be done, NAFTA has been instrumental in the strides Mexico has made in liberalizing its economy, and is one reason Mexico is taking steps to reform its political system. With this kind of report card, Congress should have no doubts about the success that NAFTA has achieved.

Total North American trade has increased significantly under NAFTA, from $293 billion in 1993 to $420 billion in 1996, a gain of $127 billion or 43 percent during NAFTA's first three years.[1]

If that gain had been with a single country, it would have made that country the fourth-largest trading partner of the United States. In 1996, U.S. exports to Canada and Mexico, at $190 billion, exceeded U.S. exports to any other area of the world, including the entire Pacific Rim or all of Europe. Mexico and Canada purchased $3 of every $10 in U.S. exports and supplied $3 of every $10 in U.S. imports in 1996. Overall, total U.S. exports of goods and services grew from $602.5 billion in 1993—the last year before NAFTA was implemented—to $825.9 billion in 1996, a gain of $223.4 billion.[2]

U.S. exports to both Mexico and Canada have grown impressively since 1993. Thanks to NAFTA, Mexican tariffs—which had averaged 10 percent before the trade agreement was implemented—now average less than 6 percent, while average U.S. tariffs have fallen from 4 percent to about 2.5 percent. As a result, U.S. exports to Mexico grew by 37 percent from 1993 to 1996, reaching a record $57 billion.[3] During this period, U.S. exports to Canada also increased by 33 percent, to $134 billion. Total two-way trade between the United States and Canada was $290 billion in 1996, while total two-way trade between the United States and Mexico was nearly $130 billion. According to the U.S. Department of Commerce, U.S. exports to Mexico

[1] In 1996, U.S. global trade (exports plus imports) totaled $1.765 trillion—over 23 percent of U.S. GDP, compared with 10 percent in 1970. The Office of the U.S. Trade Representative (USTR) has estimated that by 2010, trade will represent about 36 percent of U.S. GDP. Since 1988, almost 70 percent of U.S. economic growth has been derived solely from exports (roughly 25 percent since 1992). More than 11 million U.S. jobs depend on exports, 1.5 million more than in 1992; 20 percent of American jobs are supported by trade and pay between 13 percent and 16 percent more, on average, than non-export jobs.

[2] The U.S. Department of Commerce estimates that every $1 billion increment in U.S. exports creates 22,800 new jobs in the United States. This would mean that U.S. export growth from 1993 to 1996 was responsible for creating over 5 million U.S. jobs, or 57.7 percent of the 8.8 million net new payroll jobs created by the U.S. economy during this three-year period.

[3] Exports of U.S. components to Mexico's duty-free component assembly industry made up approximately 28 percent of total U.S. exports to Mexico in 1996, according to a report for the USTR by the U.S. International Trade Commission (ITC). The ITC found that the use of U.S. components in Mexican assembly plants had grown at an average yearly rate of 15.8 percent since NAFTA was implemented in 1994.

in the fourth quarter of 1996 were growing at an annualized rate of $64 billion. Moreover, U.S. market share in Mexico increased from 69 percent of total Mexican imports in 1993 to 76 percent in 1996.[4] During NAFTA's first three years, 39 of the 50 states increased their exports to Mexico; moreover, 44 states reported a growth in exports to Mexico during 1996 as the pace of U.S. exports to that country accelerated.[5]

NAFTA has shattered the myth that U.S. trade deficits destroy U.S. jobs. The combined U.S. trade deficit with Canada and Mexico increased during the first three years of NAFTA's implementation—from $9 billion in 1992 to $39.9 billion in 1996—because Canada and Mexico suffered economic recessions. Since 1992, however, the U.S. economy has created 12 million net new jobs. Moreover, manufacturing employment grew from 16.9 million jobs in 1992 to 18.3 million in 1993, an increase of 1.4 million net new jobs.[6] The general unemployment rate declined from 7.5 percent in 1992 to 5.3 percent in 1996, and has continued falling to about 4.9 percent today. U.S. exports to NAFTA countries currently support about 2.3 million U.S. jobs.[7]

U.S. manufacturing output has increased at a faster pace since 1992. The largest post-NAFTA gains in U.S. exports to Mexico have been in such high-technology manufacturing sectors as transportation and electronic equipment, industrial machinery, plastics and rubber, fabricated metal products, and chemicals.[8] NAFTA also has been a boon for major U.S. agricultural states like Montana, Nebraska, and North Dakota, and traditional southern textile states like North Carolina and Alabama. NAFTA has encouraged U.S. and foreign investors with apparel and footwear factories in Asia to relocate their production operations to Mexico. This diversion of investment from Asia to Mexico "saved the heavier end of clothing manufacture in the U.S.: the textile mills," as Rich Nadler, a journalist who has covered NAFTA's progress since 1992, recently observed.[9]

The living standards of American workers have improved. One review of pre-and post-NAFTA growth rates in U.S. standards of living shows that the rate of increase in personal wealth has more than tripled since NAFTA was implemented.[10] This review measured the improvement in three ways: (1) inflation-adjusted gross domestic product (GDP) per capita grew by 1.79 percent annually in 1994 and 1995, compared with only 0.23 percent from 1990 to 1993; (2) disposable personal income growth, adjusted for inflation, averaged 1.89 percent annually in 1994 and 1995, compared with 0.25 percent annually from 1990 to 1993; and (3) personal consumption expenditures grew by an inflation-adjusted 1.76 percent annually during 1994 and 1995, compared with 0.56 percent a year from 1990 to 1993.

NAFTA: A Success by Any Objective Standard

The data on trade, production, and employment growth for NAFTA's first three years quantify objectively that NAFTA is good for the United States. Moreover, a recent economic analysis published by the U.S. Federal Reserve Bank of Chicago concludes that NAFTA will lead to output gains for all three participant countries.[11] These gains are roughly twice as large as those predicted by previous forecasts of NAFTA's potential for accelerated growth in North American trade, output, and employment growth.

The Federal Reserve study, based on a dynamic economic model, also predicts that the adjustment to NAFTA should be virtually completed by 2004 (although

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[4] Testimony of Regina Vargo, Deputy Assistant Secretary for the Western Hemisphere, U.S. Department of Commerce, before the Subcommittee on International Economic Policy and Trade of the House Committee on International Relations, March 5, 1997.

[5] Data from Massachusetts Institute of Social and Economic Research.

[6] As of February 24, 1997, 110,408 U.S. workers had been certified as eligible for training assistance under NAFTA's Trade Adjustment Assistance Program, administered by the U.S. Department of Labor. The U.S. economy, however, currently creates this many net new jobs in about two weeks. The general U.S. unemployment rate declined from 7.5 percent in 1992 to 5.3 percent in 1996.

[7] Office of the USTR, "NAFTA and Jobs," 1996.

[8] Since 1992, U.S. industrial production has increased 18 percent. During this four-year period, U.S. manufactured exports increased 42 percent, high-technology exports rose 45 percent, services exports were up 26 percent, and agricultural exports expanded 40 percent. The Western Hemisphere and the Asian Pacific Rim now account for over 709 percent of total U.S. exports, up from 65 percent in 1992.

[9] Rich Nadler, "NAFTA: Jobs, Jobs, Jobs," *K. C. Jones,* Overland Park, Kansas, April 1997.

[10] *Ibid.*

[11] See Michael A. Kouparitsas, "A dynamic macroeconomic analysis of NAFTA," *Economic Perspectives,* Federal Reserve Bank of Chicago, January 1997. The study concluded that, under NAFTA, Mexico's GDP is predicted to rise 3.26 percent, U.S. GDP will rise 0.24 percent, and Canada's GDP will increase by 0.11 percent.

NAFTA will not be fully phased in until 2009) and that NAFTA will greatly expand the flow of all goods, both from Canada and the United States to Mexico and from Mexico to the United States and Canada. In general, bilateral Mexican-North American trade should increase about 20 percent as a result of NAFTA.[12] This projected growth also means more U.S. jobs and a higher standard of living for American workers.

CONCLUSION

In his State of the Union speech on February 4, 1997, President Clinton called on Congress to approve new fast-track negotiating authority in order to pursue new trade initiatives in Asia and Latin America during 1997 and 1998. "Now we must act to expand our exports," the President said, "especially to Asia and Latin America—two of the fastest growing regions on earth—or be left behind as these emerging economies forge new ties with other nations." [13]

The President is right to emphasize the importance of U.S. trade with Latin America. The Western Hemisphere accounted for 39 percent of U.S. goods exports in 1996 and was the only region in which the United States recorded a trade surplus in both 1995 and 1996. As a market for U.S. goods, the Western Hemisphere already is nearly twice as large as the European Union and nearly 50 percent larger than Asia. Moreover, while U.S. goods exports to the world generally increased 57 percent from 1990 to 1996, U.S. exports to Latin America and the Caribbean (excluding Mexico) increased by 110 percent during the same period.[14] If current trends continue, Latin America alone will exceed Japan and Western Europe combined as an export market for U.S. goods by the year 2010.

Congress should have no doubts about the success of NAFTA. Although only three years old, this international trade agreement is growing with amazing speed. Even though three years may seem like too little time to reach any final judgments about NAFTA, it already is clear that critics of this agreement have been wrong on all counts.[15] Congress will be acting in the U.S. national interest when it approves a new fast track negotiating authority so that the Clinton Administration can put U.S. trade policy back on track around the world.

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[12] *Ibid.*

[13] "Clinton calls for fast-track authority in State of the Union speech," *Inside NAFTA*, Vol. 4, No. 3 (February 6, 1997), p. 1.

[14] Office of the USTR.

[15] See Sydney Weintraub, "NAFTA at Three: A Progress Report," *Significant Issues Series*, Vol. XIX, No. 1, Center for Strategic and International Studies, Washington, D.C., 1997.

Alabama's exports to Canada and Mexico, 1993-1996. DoC data

					1995-1996 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 807,019	$ 1,011,650	$ 1,181,668	$ 1,502,293	27.13%	$ 320,625	86.15%	$ 695,275
Mexico	$ 185,340	$ 222,636	$ 193,149	$ 324,917	68.20%	$ 131,768	75.30%	$ 139,577
Canada	$ 621,679	$ 789,014	$ 988,519	$ 1,177,376	19.10%	$ 188,857	89.40%	$ 555,698

Alaska's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 84,704	$ 121,884	$ 196,642	$ 182,772	-7.05%	$ (13,870)	115.78%	$ 98,067
Canada	$ 84,070	$ 120,558	$ 195,697	$ 181,248	-7.40%	$ (14,450)	115.60%	$ 97,177
Mexico	$ 634	$ 1,326	$ 945	$ 1,524	61.40%	$ 580	140.40%	$ 890

Arizona's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 1,620,552	$ 1,850,623	$ 2,104,617	$ 2,592,353	23.17%	$ 487,736	59.97%	$ 971,801
Canada	$ 533,134	$ 644,161	$ 839,009	$ 970,177	15.60%	$ 131,167	82.00%	$ 437,043
Mexico	$ 1,087,418	$ 1,206,462	$ 1,265,608	$ 1,622,176	28.20%	$ 356,568	49.20%	$ 534,758

Arkansas's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 489,933	$ 615,269	$ 633,918	$ 717,089	13.12%	$ 83,171	46.36%	$ 227,155
Canada	$ 421,137	$ 521,079	$ 574,117	$ 614,853	7.10%	$ 40,736	46.00%	$ 193,715

Mexico	$ 68,796	$ 94,190	$ 59,801	$ 102,236	71.00%	$ 42,435	48.60%	$ 33,440
California's exports to Canada and Mexico, 1993-1996. DoC data								
					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 12,273,898	$ 14,011,462	$ 15,709,247	$ 18,364,475	16.90%	$ 2,655,228	49.62%	$ 6,090,576
Canada	$ 7,157,261	$ 8,054,482	$ 9,537,674	$ 10,577,132	10.90%	$ 1,039,458	47.80%	$ 3,419,871
Mexico	$ 5,116,637	$ 5,956,980	$ 6,171,573	$ 7,787,343	26.20%	$ 1,615,769	52.20%	$ 2,670,705
Colorado's exports to Canada and Mexico, 1993-1996. DoC data								
					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 1,199,708	$ 1,161,001	$ 1,295,477	$ 1,512,108	16.72%	$ 216,631	26.04%	$ 312,400
Canada	$ 595,316	$ 524,236	$ 602,795	$ 609,655	1.10%	$ 6,860	2.40%	$ 14,339
Mexico	$ 604,392	$ 636,765	$ 692,682	$ 902,453	30.30%	$ 209,771	49.30%	$ 298,061
Connecticut's exports to Canada and Mexico, 1993-1996. DoC data								
					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 1,742,874	$ 1,922,499	$ 1,982,057	$ 2,125,406	7.23%	$ 143,349	21.95%	$ 382,532
Canada	$ 1,407,327	$ 1,481,082	$ 1,660,198	$ 1,603,904	-3.40%	$ (56,294)	14.00%	$ 196,577
Mexico	$ 335,547	$ 441,417	$ 321,859	$ 521,502	62.00%	$ 199,642	55.40%	$ 185,955
Delaware's exports to Canada and Mexico, 1993-1996. DoC data								
					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 787,690	$ 905,100	$ 900,586	$ 1,025,850	13.91%	$ 125,264	30.24%	$ 238,159
Canada	$ 628,438	$ 692,499	$ 717,489	$ 739,731	3.10%	$ 22,242	17.70%	$ 111,292
Mexico	$ 159,252	$ 212,601	$ 183,097	$ 286,119	56.30%	$ 103,022	79.70%	$ 126,867
District of Columbia's exports to Canada and Mexico, 1993-1996. DoC data								
					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar

NAFTA Nations	$ 53,464	$ 150,897	$ 94,122	$ 110,993	17.92%	$ 16,871	107.60%	$ 57,529
Canada	$ 36,153	$ 120,907	$ 81,842	$ 102,052	24.70%	$ 20,209	182.30%	$ 65,899
Mexico	$ 17,311	$ 29,990	$ 12,280	$ 8,941	-27.20%	$ (3,339)	-48.40%	$ (8,370)

Florida's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 2,341,314	$ 2,498,406	$ 2,144,395	$ 2,368,574	10.45%	$ 224,179	1.16%	$ 27,260
Canada	$ 1,571,760	$ 1,504,825	$ 1,608,156	$ 1,631,593	1.50%	$ 23,438	3.80%	$ 59,833
Mexico	$ 769,554	$ 993,581	$ 536,239	$ 736,981	37.40%	$ 200,742	-4.20%	$ (32,573)

Georgia's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 1,793,063	$ 2,115,786	$ 2,224,527	$ 2,413,798	8.51%	$ 189,271	34.62%	$ 620,735
Canada	$ 1,468,908	$ 1,646,280	$ 1,820,735	$ 1,896,884	4.20%	$ 76,149	29.10%	$ 427,976
Mexico	$ 324,155	$ 469,506	$ 403,792	$ 516,914	28.00%	$ 113,122	59.50%	$ 192,759

Hawaii's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 13,873	$ 19,312	$ 53,325	$ 70,564	32.33%	$ 17,239	408.65%	$ 56,692
Canada	$ 13,558	$ 13,358	$ 53,051	$ 69,817	31.60%	$ 16,766	415.00%	$ 56,260
Mexico	$ 315	$ 5,954	$ 274	$ 747	172.90%	$ 474	137.00%	$ 432

Idaho's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 193,016	$ 242,378	$ 321,391	$ 313,824	-2.35%	$ (7,567)	62.59%	$ 120,808
Canada	$ 156,675	$ 208,709	$ 292,284	$ 276,468	-5.40%	$ (15,816)	76.50%	$ 119,793
Mexico	$ 36,341	$ 33,669	$ 29,107	$ 37,356	28.30%	$ 8,249	2.80%	$ 1,015

Illinois's exports to Canada and Mexico, 1993-1996. DoC data

	1993	1994	1995	1996	1995-96 Changes Percent	1995-96 Changes Dollar	1993-96 Changes Percent	1993-96 Changes Dollar
NAFTA Nations	$ 6,223,900	$ 7,588,569	$ 7,818,714	$ 8,612,003	10.15%	$ 793,289	38.37%	$ 2,388,103
Canada	$ 4,859,652	$ 5,763,135	$ 6,452,627	$ 6,767,323	4.90%	$ 314,696	39.30%	$ 1,907,671
Mexico	$ 1,364,248	$ 1,825,434	$ 1,366,087	$ 1,844,680	35.00%	$ 478,593	35.20%	$ 480,432

Indiana's exports to Canada and Mexico, 1993-1996. DoC data

	1993	1994	1995	1996	1995-96 Changes Percent	1995-96 Changes Dollar	1993-96 Changes Percent	1993-96 Changes Dollar
NAFTA Nations	$ 5,432,289	$ 6,086,262	$ 6,550,483	$ 7,159,623	9.30%	$ 609,140	31.80%	$ 1,727,335
Canada	$ 4,264,612	$ 4,593,618	$ 4,594,807	$ 4,630,345	0.80%	$ 35,538	8.60%	$ 365,734
Mexico	$ 1,167,677	$ 1,492,644	$ 1,955,676	$ 2,529,278	29.30%	$ 573,601	116.60%	$ 1,361,601

Iowa's exports to Canada and Mexico, 1993-1996. DoC data

	1993	1994	1995	1996	1995-96 Changes Percent	1995-96 Changes Dollar	1993-96 Changes Percent	1993-96 Changes Dollar
NAFTA Nations	$ 996,747	$ 1,251,951	$ 1,302,405	$ 1,387,432	6.53%	$ 85,027	39.20%	$ 390,686
Canada	$ 918,541	$ 1,152,784	$ 1,220,541	$ 1,277,156	4.60%	$ 56,616	39.00%	$ 358,616
Mexico	$ 78,206	$ 99,167	$ 81,864	$ 110,276	34.70%	$ 28,412	41.00%	$ 32,070

Kansas's exports to Canada and Mexico, 1993-1996. DoC data

	1993	1994	1995	1996	1995-96 Changes Percent	1995-96 Changes Dollar	1993-96 Changes Percent	1993-96 Changes Dollar
NAFTA Nations	$ 660,034	$ 937,178	$ 1,035,756	$ 1,339,066	29.28%	$ 303,310	102.88%	$ 679,034
Canada	$ 473,112	$ 571,165	$ 686,987	$ 695,980	1.30%	$ 8,993	47.10%	$ 222,869
Mexico	$ 186,922	$ 366,013	$ 348,769	$ 643,086	84.40%	$ 294,318	244.00%	$ 456,165

Kentucky's exports to Canada and Mexico, 1993-1996. DoC data

	1993	1994	1995	1996	1995-96 Changes Percent	1995-96 Changes Dollar	1993-96 Changes Percent	1993-96 Changes Dollar
NAFTA Nations	$ 1,248,203	$ 1,803,202	$ 1,992,716	$ 2,185,468	9.67%	$ 192,752	75.09%	$ 937,264
Canada	$ 1,058,329	$ 1,571,129	$ 1,804,708	$ 1,905,339	5.60%	$ 100,631	80.00%	$ 847,009
Mexico	$ 189,874	$ 232,073	$ 188,008	$ 280,129	49.00%	$ 92,121	47.50%	$ 90,255

Louisiana's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 433,320	$ 557,966	$ 637,193	$ 688,349	8.03%	$ 51,156	58.85%	$ 255,029
Canada	$ 372,258	$ 449,086	$ 557,351	$ 542,856	-2.60%	$ (14,495)	45.80%	$ 170,598
Mexico	$ 61,062	$ 108,880	$ 79,842	$ 145,493	82.20%	$ 65,651	138.30%	$ 84,431

Maine's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 390,783	$ 442,186	$ 480,482	$ 501,328	4.34%	$ 20,846	28.29%	$ 110,546
Canada	$ 362,114	$ 406,205	$ 469,779	$ 489,028	4.10%	$ 19,249	35.00%	$ 126,915
Mexico	$ 28,669	$ 35,981	$ 10,703	$ 12,300	14.90%	$ 1,597	-57.10%	$ (16,369)

Maryland's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 698,002	$ 721,730	$ 646,374	$ 728,221	12.66%	$ 81,847	4.33%	$ 30,219
Canada	$ 601,827	$ 621,366	$ 551,907	$ 553,335	0.30%	$ 1,428	-8.10%	$ (48,492)
Mexico	$ 96,175	$ 100,364	$ 94,467	$ 174,886	85.10%	$ 80,419	81.80%	$ 78,711

Massachusetts's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 2,915,042	$ 3,395,542	$ 3,656,682	$ 3,875,568	5.99%	$ 218,886	32.95%	$ 960,526
Canada	$ 2,540,646	$ 2,860,427	$ 3,339,940	$ 3,486,816	4.40%	$ 146,876	37.20%	$ 946,170
Mexico	$ 374,396	$ 535,115	$ 316,742	$ 388,752	22.70%	$ 72,010	3.80%	$ 14,356

Michigan's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 17,064,551	$ 27,897,615	$ 26,938,711	$ 26,636,437	-1.12%	$ (302,274)	56.09%	$ 9,571,884
Canada	$ 11,434,093	$ 20,809,105	$ 21,935,931	$ 21,949,620	0.10%	$ 13,688	92.00%	$ 10,515,526

Mexico	$ 5,630,458	$ 7,088,510	$ 5,002,780	$ 4,686,817	-6.30%	$ (315,964)	-16.80%	$ (943,642)
Minnesota's exports to Canada and Mexico, 1993-1996. DoC data								
					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 2,178,977	$ 2,438,316	$ 2,947,949	$ 3,706,816	25.74%	$ 758,867	70.12%	$ 1,527,840
Canada	$ 1,950,403	$ 2,108,525	$ 2,442,238	$ 2,860,555	17.10%	$ 418,317	46.70%	$ 910,153
Mexico	$ 228,574	$ 329,791	$ 505,711	$ 846,261	67.30%	$ 340,550	270.20%	$ 617,687
Mississippi's exports to Canada and Mexico, 1993-1996. DoC data								
					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 331,168	$ 417,702	$ 460,628	$ 479,101	4.01%	$ 18,473	44.67%	$ 147,932
Canada	$ 305,918	$ 352,050	$ 372,700	$ 387,755	4.00%	$ 15,055	26.80%	$ 81,837
Mexico	$ 25,250	$ 65,652	$ 87,928	$ 91,346	3.90%	$ 3,417	261.80%	$ 66,095
Missouri's exports to Canada and Mexico, 1993-1996. DoC data								
					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 1,653,221	$ 2,121,272	$ 2,068,722	$ 2,377,152	14.91%	$ 308,430	43.79%	$ 723,931
Canada	$ 1,112,859	$ 1,347,896	$ 1,369,711	$ 1,288,140	-6.00%	$ (81,570)	15.80%	$ 175,281
Mexico	$ 540,362	$ 773,376	$ 699,011	$ 1,089,012	55.80%	$ 390,002	101.50%	$ 548,650
Montana's exports to Canada and Mexico, 1993-1996. DoC data								
					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 145,999	$ 145,253	$ 148,251	$ 206,722	39.44%	$ 58,471	41.59%	$ 60,723
Canada	$ 144,749	$ 140,145	$ 140,152	$ 160,556	14.60%	$ 20,404	10.90%	$ 15,807
Mexico	$ 1,250	$ 5,108	$ 8,099	$ 46,166	470.00%	$ 38,067	3593%	$ 44,916
Nebraska's exports to Canada and Mexico, 1993-1996. DoC data								
					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar

NAFTA Nations	$ 356,547	$ 435,901	$ 432,377	$ 586,691	35.69%	$ 154,314	64.55%	$ 230,145
Canada	$ 295,737	$ 327,080	$ 352,343	$ 418,740	18.80%	$ 66,398	41.60%	$ 123,004
Mexico	$ 60,810	$ 108,821	$ 80,034	$ 167,951	109.90%	$ 87,918	176.20%	$ 107,141

Nevada's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 136,503	$ 163,395	$ 224,605	$ 274,813	22.35%	$ 50,208	101.32%	$ 138,310
Canada	$ 123,430	$ 148,880	$ 211,757	$ 265,573	25.40%	$ 53,816	115.20%	$ 142,143
Mexico	$ 13,073	$ 14,515	$ 12,848	$ 9,240	-28.10%	$ (3,608)	-29.30%	$ (3,833)

New Hampshire's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 416,783	$ 465,821	$ 539,625	$ 705,965	30.83%	$ 166,340	69.38%	$ 289,181
Canada	$ 377,161	$ 422,416	$ 494,401	$ 642,396	29.90%	$ 147,995	70.30%	$ 265,235
Mexico	$ 39,622	$ 43,405	$ 45,224	$ 63,569	40.60%	$ 18,345	60.40%	$ 23,946

New Jersey's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 3,327,864	$ 4,011,782	$ 3,750,953	$ 4,058,331	8.19%	$ 307,378	21.95%	$ 730,468
Canada	$ 2,539,012	$ 2,943,687	$ 3,167,186	$ 3,379,107	6.70%	$ 211,921	33.10%	$ 840,096
Mexico	$ 788,852	$ 1,068,095	$ 583,767	$ 679,224	16.40%	$ 95,457	-13.90%	$ (109,628)

New Mexico's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 152,415	$ 141,451	$ 118,758	$ 151,215	27.33%	$ 32,457	-0.79%	$ (1,200)
Canada	$ 46,622	$ 47,529	$ 41,675	$ 51,176	22.80%	$ 9,501	9.80%	$ 4,554
Mexico	$ 105,793	$ 93,922	$ 77,083	$ 100,039	29.80%	$ 22,956	-5.40%	$ (5,754)

New York's exports to Canada and Mexico,1993-1996. DoC data

	1993	1994	1995	1996	1995-96 Changes Percent	1995-96 Changes Dollar	1993-96 Changes Percent	1993-96 Changes Dollar
NAFTA Nations	$ 7,751,815	$ 8,811,110	$ 10,237,734	$ 10,259,736	0.21%	$ 22,002	32.35%	$ 2,507,922
Canada	$ 6,580,818	$ 7,487,187	$ 9,243,723	$ 8,956,662	-3.10%	$ (287,061)	36.10%	$ 2,375,845
Mexico	$ 1,170,997	$ 1,323,923	$ 994,011	$ 1,303,074	31.10%	$ 309,063	11.30%	$ 132,077

North Carolina's exports to Canada and Mexico, 1993-1996. DoC data

	1993	1994	1995	1996	1995-96 Changes Percent	1995-96 Changes Dollar	1993-96 Changes Percent	1993-96 Changes Dollar
NAFTA Nations	$ 2,654,118	$ 3,275,884	$ 3,822,280	$ 4,442,630	16.23%	$ 620,350	67.39%	$ 1,788,512
Canada	$ 2,289,056	$ 2,782,830	$ 3,168,486	$ 3,520,408	11.10%	$ 351,922	53.80%	$ 1,231,351
Mexico	$ 365,062	$ 493,054	$ 653,794	$ 922,222	41.10%	$ 268,428	152.60%	$ 557,161

North Dakota's exports to Canada and Mexico, 1993-1996. DoC data

	1993	1994	1995	1996	1995-96 Changes Percent	1995-96 Changes Dollar	1993-96 Changes Percent	1993-96 Changes Dollar
NAFTA Nations	$ 230,120	$ 252,400	$ 332,080	$ 390,238	17.51%	$ 58,158	69.58%	$ 160,118
Canada	$ 227,265	$ 250,595	$ 315,311	$ 378,753	20.10%	$ 63,442	66.70%	$ 151,488
Mexico	$ 2,855	$ 1,805	$ 16,769	$ 11,485	-31.50%	$ (5,283)	302.30%	$ 8,630

Ohio's exports to Canada and Mexico, 1993-1996. DoC data

	1993	1994	1995	1996	1995-96 Changes Percent	1995-96 Changes Dollar	1993-96 Changes Percent	1993-96 Changes Dollar
NAFTA Nations	$ 8,598,442	$ 9,924,616	$ 10,243,508	$ 10,925,508	6.66%	$ 682,000	27.06%	$ 2,327,066
Canada	$ 7,671,876	$ 8,501,410	$ 8,881,301	$ 9,580,419	7.90%	$ 699,118	24.90%	$ 1,908,543
Mexico	$ 926,566	$ 1,423,206	$ 1,362,207	$ 1,345,089	-1.30%	$ (17,118)	45.20%	$ 418,523

Oklahoma's exports to Canada and Mexico, 1993-1996. DoC data

	1993	1994	1995	1996	1995-96 Changes Percent	1995-96 Changes Dollar	1993-96 Changes Percent	1993-96 Changes Dollar
NAFTA Nations	$ 584,005	$ 636,418	$ 612,698	$ 749,637	22.35%	$ 136,939	28.36%	$ 165,633
Canada	$ 426,168	$ 497,144	$ 492,350	$ 570,947	16.00%	$ 78,597	34.00%	$ 144,779
Mexico	$ 157,837	$ 139,274	$ 120,348	$ 178,690	48.50%	$ 58,343	13.20%	$ 20,854

Oregon's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 979,696	$ 1,141,449	$ 1,183,565	$ 942,960	-20.33%	$ (240,605)	-3.75%	$ (36,735)
Canada	$ 870,674	$ 1,020,897	$ 1,097,496	$ 890,176	-18.90%	$ (207,319)	2.20%	$ 19,502
Mexico	$ 109,022	$ 120,552	$ 86,069	$ 52,784	-38.70%	$ (33,284)	-51.60%	$ (56,237)

Pennsylvania's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 4,357,600	$ 4,932,888	$ 5,412,922	$ 5,652,642	4.43%	$ 239,720	29.72%	$ 1,295,041
Canada	$ 3,730,267	$ 4,066,497	$ 4,671,766	$ 4,773,686	2.20%	$ 101,920	28.00%	$ 1,043,419
Mexico	$ 627,333	$ 866,391	$ 741,156	$ 878,956	18.60%	$ 137,799	40.10%	$ 251,622

Rhode Island's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 327,908	$ 296,459	$ 309,715	$ 345,825	11.66%	$ 36,110	5.46%	$ 17,917
Canada	$ 286,322	$ 268,830	$ 294,325	$ 322,609	9.60%	$ 28,284	12.70%	$ 36,287
Mexico	$ 41,586	$ 27,629	$ 15,390	$ 23,216	50.90%	$ 7,826	-44.20%	$ (18,370)

South Carolina's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 1,302,509	$ 1,702,738	$ 2,179,911	$ 2,140,036	-1.83%	$ (39,875)	64.30%	$ 837,526
Canada	$ 1,009,273	$ 1,252,748	$ 1,538,508	$ 1,478,239	-3.90%	$ (60,269)	46.50%	$ 468,966
Mexico	$ 293,236	$ 449,990	$ 641,403	$ 661,797	3.20%	$ 20,394	125.70%	$ 368,560

South Dakota's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 111,688	$ 136,218	$ 147,305	$ 171,920	16.71%	$ 24,615	53.93%	$ 60,232
Canada	$ 107,542	$ 130,760	$ 142,050	$ 164,082	15.50%	$ 22,031	52.60%	$ 56,540

Mexico	$ 4,146	$ 5,458	$ 5,255	$ 7,838	49.20%	$ 2,584	89.10%	$ 3,692
Tennessee's exports to Canada and Mexico, 1993-1996. DoC data								
					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 2,328,953	$ 2,728,640	$ 2,940,316	$ 3,113,484	5.89%	$ 173,168	33.69%	$ 784,530
Canada	$ 1,679,103	$ 1,976,239	$ 2,100,959	$ 2,199,930	4.70%	$ 98,971	31.00%	$ 520,827
Mexico	$ 649,850	$ 752,401	$ 839,357	$ 913,554	8.80%	$ 74,196	40.60%	$ 263,703
Texas's exports to Canada and Mexico, 1993-1996. DoC data								
					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 16,672,072	$ 19,195,301	$ 18,731,034	$ 22,203,160	18.54%	$ 3,472,126	33.18%	$ 5,531,087
Canada	$ 3,811,273	$ 4,830,411	$ 6,142,021	$ 6,616,442	7.70%	$ 474,420	73.60%	$ 2,805,168
Mexico	$ 12,860,799	$ 14,364,890	$ 12,589,013	$ 15,586,718	23.80%	$ 2,997,705	21.20%	$ 2,725,919
Utah's exports to Canada and Mexico, 1993-1996. DoC data								
					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 373,608	$ 425,561	$ 479,820	$ 519,662	8.30%	$ 39,842	39.09%	$ 146,054
Canada	$ 343,113	$ 342,899	$ 413,117	$ 443,264	7.30%	$ 30,147	29.20%	$ 100,151
Mexico	$ 30,495	$ 82,662	$ 66,703	$ 76,398	14.50%	$ 9,695	150.50%	$ 45,903
Vermont's exports to Canada and Mexico, 1993-1996. DoC data								
					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 2,087,459	$ 2,080,419	$ 2,520,323	$ 2,386,163	-5.32%	$ (134,160)	14.31%	$ 298,704
Canada	$ 2,075,230	$ 2,064,491	$ 2,509,909	$ 2,377,639	-5.30%	$ (132,269)	14.60%	$ 302,409
Mexico	$ 12,229	$ 15,928	$ 10,414	$ 8,524	-18.10%	$ (1,890)	-30.30%	$ (3,705)
Virginia's exports to Canada and Mexico, 1993-1996. DoC data								
					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar

NAFTA Nations	$ 1,354,573	$ 1,586,373	$ 1,786,603	$ 1,698,767	-4.92%	$ (87,836)	25.41%	$ 344,194
Canada	$ 1,052,267	$ 1,220,537	$ 1,465,816	$ 1,356,658	-7.40%	$ (109,158)	28.90%	$ 304,391
Mexico	$ 302,306	$ 365,836	$ 320,787	$ 342,109	6.60%	$ 21,322	13.20%	$ 39,803

Washington's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 1,930,928	$ 2,267,680	$ 2,476,674	$ 2,692,285	8.71%	$ 215,611	39.43%	$ 761,357
Canada	$ 1,723,082	$ 1,856,432	$ 2,288,600	$ 2,437,384	6.50%	$ 148,784	41.50%	$ 714,303
Mexico	$ 207,846	$ 411,248	$ 188,074	$ 254,901	35.50%	$ 66,827	22.60%	$ 47,054

West Virginia's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 305,987	$ 351,301	$ 350,641	$ 396,821	13.17%	$ 46,180	29.69%	$ 90,835
Canada	$ 285,015	$ 334,622	$ 334,237	$ 377,495	12.90%	$ 43,258	32.40%	$ 92,481
Mexico	$ 20,972	$ 16,679	$ 16,404	$ 19,326	17.80%	$ 2,923	-7.80%	$ (1,646)

Wisconsin's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 2,234,845	$ 2,850,350	$ 3,119,576	$ 3,036,052	-2.68%	$ (83,524)	35.85%	$ 801,208
Canada	$ 1,947,115	$ 2,438,407	$ 2,808,604	$ 2,685,579	-4.40%	$ (123,024)	37.90%	$ 738,465
Mexico	$ 287,730	$ 411,943	$ 310,972	$ 350,473	12.70%	$ 39,501	21.80%	$ 62,743

Wyoming's exports to Canada and Mexico, 1993-1996. DoC data

					1995-96 Changes		1993-96 Changes	
	1993	1994	1995	1996	Percent	Dollar	Percent	Dollar
NAFTA Nations	$ 42,175	$ 52,665	$ 54,861	$ 72,827	32.75%	$ 17,966	72.68%	$ 30,653
Canada	$ 37,813	$ 48,608	$ 50,741	$ 69,370	36.70%	$ 18,629	83.50%	$ 31,557
Mexico	$ 4,362	$ 4,057	$ 4,120	$ 3,457	-16.10%	$ (662)	-20.70%	$ (904)

Puerto Rico's exports to Canada and Mexico, 1993-1996. DoC data

	1993	1994	1995	1996	1995-96 Changes Percent	1995-96 Changes Dollar	1993-96 Changes Percent	1993-96 Changes Dollar
NAFTA Nations	$ 516,872	$ 808,292	$ 741,362	$ 802,750	8.28%	$ 61,388	55.31%	$ 285,878
Canada	$ 387,406	$ 671,274	$ 535,912	$ 575,805	7.40%	$ 39,894	48.60%	$ 188,399
Mexico	$ 129,466	$ 137,018	$ 205,450	$ 226,945	10.50%	$ 21,494	75.30%	$ 97,479

Virgin Island's exports to Canada and Mexico, 1993-1996. DoC data

	1993	1994	1995	1996	1995-96 Changes Percent	1995-96 Changes Dollar	1993-96 Changes Percent	1993-96 Changes Dollar
NAFTA Nations	$ 10,230	$ 11,328	$ 18,080	$ 19,067	5.46%	$ 987	86.39%	$ 8,838
Canada	$ 10,053	$ 7,487	$ 12,433	$ 7,415	-40.40%	$ (5,018)	-26.20%	$ (2,637)
Mexico	$ 177	$ 3,841	$ 5,647	$ 11,652	106.30%	$ 6,005	6483%	$ 11,475

(Unallocated) exports to Canada and Mexico, 1993-1996. DoC data

	1993	1994	1995	1996	1995-96 Changes Percent	1995-96 Changes Dollar	1993-96 Changes Percent	1993-96 Changes Dollar
NAFTA Nations	$ 18,906,877	$ 13,977,553	$ 14,041,228	$ 17,422,155	24.08%	$ 3,380,927	-7.85%	$ (1,484,721)
Canada	$ 15,163,220	$ 9,247,016	$ 8,338,163	$ 10,598,254	27.10%	$ 2,260,091	-30.10%	$ (4,564,965)
Mexico	$ 3,743,657	$ 4,730,537	$ 5,703,065	$ 6,823,901	19.70%	$ 1,120,836	82.30%	$ 3,080,244

U.S. Total exports to Canada and Mexico, 1993-1996. DoC data

	1993	1994	1995	1996	1995-96 Changes Percent	1995-96 Changes Dollar	1993-96 Changes Percent	1993-96 Changes Dollar
NAFTA Nations	$ 141,825,934	$165,095,007	$172,335,588	$189,344,727	9.87%	$ 17,009,139	33.51%	$ 47,518,793
Canada	$ 100,190,440	$114,254,742	$126,024,133	$132,583,904	5.20%	$6,559,771	32.30%	$32,393,464
Mexico	$ 41,635,494	$50,840,265	$46,311,455	$56,760,823	22.60%	$10,449,368	36.30%	$15,125,329

Source: U.S. Census Bureau, Exporter Location Series
Prepared by: Office of Trade and Economic Analysis, International Trade Administration, Department of Commerce.

Mr. CAMP. Thank you very much for your testimony.

Mrs. Thurman.

Ms. THURMAN. No questions, Mr. Chairman.

Mr. CAMP. Ms. Hecker, why do you think that most of the dispute settlement cases filed under the labor and environmental side agreements were against United States and Canadian practices instead of against Mexico?

Ms. HECKER. Well, I think it was a poignant answer earlier about the United States tradition of raising disputes and using panels for the purpose of getting review, and I think that has been less the case in Mexico. There is growing awareness. There are not the number of interest groups. Environmental groups have not had the same level of public activity, but there is definitely awareness of them and awareness of the commitments. We met with a number of NGOs there. It's just less the tradition, I believe.

Mr. CAMP. OK, thank you.

Mr. Weintraub, has NAFTA triggered a large outflow of United States investment to Mexico?

Mr. WEINTRAUB. In Mexican terms, the figures are fairly substantial. United States direct investment in Mexico—I assume you're talking about direct investments——

Mr. CAMP. Yes.

Mr. WEINTRAUB [continuing]. Has been quite substantial. I think this year Mexico, from the world, will receive about $11 billion worth of direct investment and about 60 percent of that comes from the United States.

In U.S. terms, these are not very big figures. They amount to about 1.5 percent of gross domestic investment in the United States. But the answer to your question is, Yes, for Mexico, in terms of the total United States economy, the figure is quite modest.

Mr. CAMP. Thank you very much. Thank you all for your testimony. I appreciate it very much.

And now I would like to introduce the final panel, beginning with Al Zapanta, president and chief executive officer of the United States-Mexico Chamber of Commerce; Steve Beckman, international economist for the UAW; Jay Mazur, president of UNITE; Reginald Brown, director of marketing and membership for the Florida Fruit and Vegetable Association; and Wayne Hawkins, executive vice president of the Florida Tomato Exchange.

Mr. Zapanta, please proceed with your testimony.

STATEMENT OF ALBERT C. ZAPANTA, PRESIDENT AND CHIEF EXECUTIVE OFFICER, UNITED STATES-MEXICO CHAMBER OF COMMERCE; ON BEHALF OF BORDER TRADE ALLIANCE

Mr. ZAPANTA. Thank you, Mr. Chairman. Mr. Chairman, Chairman Crane, thank you very much for the opportunity to comment on the President's comprehensive review of NAFTA on behalf of the United States-Mexico Chamber of Commerce and the Border Trade Alliance.

The chamber is a private, nonprofit organization formed 25 years ago in Washington, DC, and Mexico City as the only binational business-to-business organization in existence. Since that time, we have worked closely with thousands of private sector members across the United States and Mexico to enhance the economic, political, and cultural relationship between the two countries. During the past 3 years, we have monitored and assisted in the implementation of the North American Free Trade Agreement, which has been a key component of North America's economic framework.

After more than 3 years, it is clear that NAFTA is good for the United States and good for Mexico, and that the exaggerated claims by both NAFTA proponents and NAFTA's opponents during the NAFTA ratification process were off the mark. As the President's report makes clear, the large number of job losses or job gains has not materialized. Rather, NAFTA codified many of the changes already underway in the region's economy. Specifically, it locked into place much of the unilateral economic liberalization begun by Mexico in the mideighties.

NAFTA goes well beyond tariff reduction. In goods trade, it opened previously protected sectors in agriculture, energy, textiles, and automotive trade. It opened up the United States-Mexico border to trade and services with specific rules in financial services, transportation services, and telecommunications. It set rules on government procurement and intellectual property rights. It set specific safeguards, including how to deal with subsidies and unfair practices. It set up procedures for dealing with private, commercial, and agricultural disputes, and it set up a process for dealing with NAFTA implementation concerns.

Therefore, much of the rhetoric about jobs, both from proponents of NAFTA and from its opponents, was highly exaggerated. We now have irrefutable empirical evidence that fears of major job losses to Mexico due to NAFTA are unfounded. U.S. employment has risen, and the level of unemployment has decreased during the first 3 years of NAFTA. The 6.4 million new jobs created over these 3 years led to a decrease in the number of unemployed from 8.5 million to 7.2 million, which was due only in the most marginal way to NAFTA. Rather, it's due to the continued expansion of the U.S. economy. In fact, over the 3-year period, it is estimated that 31,000 new jobs were created and 28,000 jobs were lost due to NAFTA, a net of 3,000 jobs to the positive. This needs to be put in perspective.

Over the period, millions of jobs were created and lost due to ongoing changes in the dynamic U.S. economy. However, the information does show that jobs created from new United States-Mexico trade induced by NAFTA have higher wages than jobs that have left the country. Clearly, then, those who argue that a negative trade balance would cost jobs were wrong.

Mexico remains exceptionally important to the United States. Mexico's population of approximately 93 million is about one-third the size of the United States, but in May of this year the Nation supplanted Japan as the second largest export market for United States goods and services. The trend continues into June and into the summer, the most recent months for which Commerce Department figures are available. Clearly, a growing, prosperous Mexico is in the interest of every citizen of the United States. Not only will this lead to lower illegal immigration and a healthier environment in Mexico, but a vibrant Mexico will be able to deal with illegal drug activities which are hurting both our societies.

The economic policies of the Zedillo administration in Mexico today should lead to dynamic export-led growth in Mexico with a stable, consumer-driven economy which will continue to buy higher and higher quantities of sophisticated products made in capital-intensive and high-wage U.S. industries.

Some friction is inevitable under the large, complex agreement such as NAFTA, but both the United States and Mexico need to act quickly to find solutions so that the confidence in the overall agreement is maintained.

On December 18, 1995, the border between the United States and Mexico was to have opened for international delivery by truck into border States. In addition, on the same day the United States was to permit Mexican owners to purchase interest in United States trucking companies. Neither provision has been implemented. While NAFTA gives the United States the right to refuse Mexican trucks' entry into the border States for safety reasons, critics of the Clinton administration say that the provision of NAFTA was delayed for political reasons, including objections from organized labor and the 1996 election campaign.

For whatever reason, the United States-Mexico Chamber of Commerce believes strongly that these NAFTA provisions should be implemented immediately. The border is ready to open. Leading up to the December 18, 1995, date, there was much activity to get ready along the border. There was an extensive industry safety training program sponsored by the States and the three NAFTA governments and the industry. Senior government representatives from both California and Texas told the press their States were prepared for the border opening. Since government and private sector leaders have continued initiative to ensure a safe border—for example, all border States have made improvements at border crossings; Mexico joined the Commercial Vehicle Safety Alliance, an organization of state and provincial officials that works to ensure the compliance and enforcement procedures, and under the Land Transport Standards Subcommittee, established under NAFTA, the United States, Mexico, and Canada have agreed on critical safety areas that would be reviewed and approved before a carrier could begin cross-border operations.

In addition, the private sector is helping lead the way toward smoother border operations. For example, the Business Antismuggling Coalition, known as BASC, is a voluntary program for corporate participants to establish self-imposed standards in the area of security, safety, and logistics that will significantly hinder drug traffickers from using legitimate business shipments as vehicles to smuggle illicit drugs into the United States. This alliance of private sector firms is supported by the U.S. Customs Service and is an initiative led by the United States-Mexico Chamber of Commerce, along with the Border Trade Alliance. It involves seminars to impart knowledge of best practices and ideas on packing and shipping, which can reduce the danger of illegal drug use on legitimate cargo.

The environment—the 2,000-mile United States-Mexican border separates two countries with significantly different income levels. The development of appropriate infrastructure to deal with increased commerce, continuing the process of reducing environmental degradation, and improving working conditions on both sides of the border will be essential to maintain confidence in NAFTA.

The U.S. Congress recently named the United States-Mexico Chamber of Commerce as the recipient of a grant through the Department of Commerce to improve the United States-Mexico business community's access to Mexico's environmental rules—to remove nontariff barriers present and regulatory uncertainty, enhance business opportunities, and promote sustainable environmental practices.

NAFTA contains a very simple clause which states that, if agreed to by the United States, Mexico, and Canada, other countries can accede to this agreement. In June 1995, officials of the United States, Mexico, and Canada agreed that negotiations should begin regarding Chile's accession to the NAFTA. Canada and Mexico are reaching out to other countries in the hemisphere and signing bilateral agreements. These arrangements put United States firms at a competitive disadvantage compared with the Canadian and Mexican counterparts.

December 1994 saw 34 democratically elected leaders in the hemisphere agree to forge a Free Trade Area of the Americas, FTAA, by the year 2005. If the strong rules-based disciplines contained in NAFTA are to become the norm in the hemisphere, it is imperative that the President be given fast track authority by the Congress so that Chile can be admitted and momentum of this type of hemisphere agreement can be obtained.

In conclusion, Mr. Chairman, NAFTA has locked in fundamental economic reforms in Mexico, and under President Zedillo these reforms are being widened and deepened. With the increase in commerce between the United States and Mexico, which began in the late eighties and accelerated with NAFTA, the lives of the citizens of the United States and the citizens of Mexico are being improved. The few trade irritants that exist today can and should be dealt with promptly by the United States and Mexican Governments.

Mexico and the United States share a 2,000-mile border. The geographic reality will not change. It is, therefore, crucial for both countries to confront bilateral and regional economic and political issues. NAFTA has offered a strong framework for economic relations. As a good neighbor, it is important the United States continue to move forward with a worthy partner as it enters the 21st century.

Meanwhile, the chamber strongly believes that the U.S. Government should apply the lessons learned from NAFTA to a proposed Free Trade Area of the Americas. The chamber believes fast track authority for the President of the United States will allow negotiations of a fair agreement built upon the successful NAFTA framework. In the end, such an agreement will certainly benefit the producers and consumers in the United States and throughout the region.

And one final note: Mr. Chairman, the United States-Mexico Chamber of Commerce has joined with the Greater American Business Coalition, which is made up of all the binational chambers, to serve as a catalyst for what promises to be a permanent contribution to economic and political relations in the Americas.

And with your permission, I would like to enter our written testimony into the record.

Mr. CAMP. Without objection.

[The prepared statement follows:]

Statement of Albert C. Zapanta, President and Chief Executive Officer, United States-Mexico Chamber of Commerce; on Behalf of Border Trade Alliance

Chairman Crane, thank you very much for the opportunity to comment on the President's comprehensive review of NAFTA on behalf of the United States-Mexico Chamber of Commerce and the Border Trade Alliance. The Chamber is a private, non-profit organization formed 25 years ago in Washington, D.C. and Mexico City as the only binational business-to-business organization. Since that time, we have worked closely with thousands of private-sector members across the United States and Mexico to enhance the economic, political and cultural relationship between the two countries. During the past three years, we have monitored and assisted in the implementation of the North American Free Trade Agreement, which has been a key component of North America's economic framework. While the agreement will only be fully implemented after 15 years, now is an appropriate time to reflect on the successes of the trade agreement. It is also an opportune time to address challenges—issues that need to be resolved for NAFTA to be a complete success and a viable model for the Western Hemisphere.

BACKGROUND

After more than three years it is clear that NAFTA is good for the United States and good for Mexico and that the exaggerated claims both by NAFTA's proponents and NAFTA's opponents during the NAFTA ratification process were off the mark. As the President's report makes clear, the large number of job losses or job gains has not materialized. Rather, NAFTA codified many of the changes already under way in the region's economy. Specifically, it locked into place much of the unilateral economic liberalization begun by Mexico in the mid-1980s.

Specifically, the Agreement dramatically reduced some tariffs immediately while other tariffs will fall to zero over a 5 to 15 year period. This Agreement broadened and superseded the 1989 free trade agreement between the United States and Canada.

But NAFTA goes well beyond tariff reduction.

- In goods trade it opened previously protected sectors in agriculture, energy, textiles, and automotive trade.
- It opened up the U.S.-Mexico border to trade in services with specific rules in financial services, transportation services, and telecommunication services.
- It set rules on government procurement and intellectual property rights.
- It set specific safeguards including how to deal with subsidies and unfair practices; it set up procedures for dealing with private commercial or agricultural disputes; and it set up a process for dealing with NAFTA implementation concerns.

Mexico is making far more significant changes to its economy because of NAFTA than the United States. Mexican tariffs on U.S. goods averaged 10 percent in 1993 while U.S. tariffs on Mexican products averaged 4 percent. Mexico is moving its rules on investment closer to those which prevailed in the United States.

NAFTA has continued the process of opening the U.S.-Mexico border to increased commerce. Two way trade between the United States and Mexico has risen 60 percent from 1993, the year before NAFTA was implemented to 1996, the third year of its existence.

But Mexico is economically small compared with the U.S. Mexican GDP in 1996 was about $327 billion, or 4.4 percent of the U.S. GDP—$7,500 billion. Put another way, Mexico's economy is about the size the state of Florida's economy.

Therefore, much of the rhetoric about jobs, both from proponents of NAFTA and from its opponents were highly exaggerated. We now have irrefutable empirical evidence that fears of major U.S. job losses to Mexico due to NAFTA are unfounded. U.S. employment has risen, and the level of unemployment has decreased during the first three years of NAFTA. The 6.4 million net new jobs created over this three year period led to a decrease in the number of unemployed from 8.5 million to 7.2 million, which was due only in the most marginal way to NAFTA. Rather it is due to the continued expansion of the U.S. economy. In fact, over this three year period, it is estimated that 31,000 new jobs were created and 28,000 jobs were lost due to NAFTA. This needs to be put into perspective. Over this period millions of jobs were created and lost due to ongoing changes in the dynamic U.S. economy. However, the information does show that the jobs created from new U.S.-Mexico trade induced by NAFTA have higher wages than the jobs that have left the country.

Clearly, then, those who argued that a negative trade balance costs jobs were wrong. And, in fact, NAFTA has had little to do with the shifting U.S.-Mexico trade balance. The Mexican overall trade balance went from a $18.5 billion deficit in 1994 to a $7.1 billion surplus in 1995 after the peso devaluation in December 1994. The impact of this change on the U.S. exports to Mexico was significantly less than the impact on Asian or European exports to Mexico. This was due in part to NAFTA commitments made by Mexico and due in part to co-production arrangements between Mexico and the United States. This increased commerce in intermediate goods from the United States began with the opening of the Mexican economy in the mid-1980s and has accelerated with NAFTA. U.S. exports to Mexico slipped only $4 billion in 1995 while Mexican exports to the U.S. rose about $12 billion that same year. In 1996, U.S. exports to Mexico recovered completely from the peso devaluation, increasing to $56.79 billion, a jump of 22.6 percent from 1995. Meanwhile, NAFTA, acting as a safety net during an export-led recovery, helped Mexico rebound from its peso devaluation.

Mexico remains exceptionally important to the U.S. Mexico's population of approximately 93 million is about one third the size of the U.S., but in May of this year, the nation supplanted Japan as the second-largest export market for U.S. goods and services. The trend continued in June, the most recent months for which Commerce Department figures are available. Clearly, a growing, prosperous Mexico is in the interest of every citizen in the U.S. Not only will this lead to lower illegal immigration and a healthier environment in Mexico, but a vibrant Mexico will be better able to deal with illegal drug activities which are hurting both of our societies.

- The economic policies of the Zedillo Administration in Mexico today should lead to dynamic export-led growth in Mexico with a stable, consumer driven economy which will continue to buy higher and higher quantities of sophisticated products made in capital intensive and high wage U.S. industries.

MAINTAINING CONFIDENCE IN NAFTA

Some friction is inevitable under a large complex agreement such as NAFTA, but both the United States and Mexico need to act quickly to find solutions so that confidence in the overall agreement is maintained.

On December 18, 1995, the border between the U.S. and Mexico was to have opened up for international delivery by truck into border states. In addition, on the same day, the U.S. was to permit Mexican owners to purchase interest in U.S. trucking companies. Neither provision has been implemented. While NAFTA gives the U.S. the right to refuse Mexican trucks entry into the border states for safety reasons, critics of the Clinton administration say that this provision of NAFTA was delayed for political reasons—including objections from organized labor and the 1996 election campaign. For whatever the reason, the U.S.-Mexico Chamber of Commerce believes strongly that these NAFTA provisions should be implemented immediately.

Why is the border opening so important? Two way trade between the U.S. and Mexico has increased 60 percent over the three years NAFTA has been in force. The U.S. Department of Commerce reports that truck traffic crossing the border has also increased 60 percent. When measured by value, trucks move 87 percent of U.S.-Mexico trade. Delay opening the border slows cargo, increases business expenses, slows traffic—which causes more pollution at the border—and has an overall negative impact on the NAFTA economy.

There is another very important reason to open the border: The U.S. is holding the NAFTA up as a model as the countries of the Hemisphere move toward the start of the negotiations for a Free Trade Area of the Americas (FTAA). The U.S. government sees it in the interest of U.S. business to have a rules-based trading system in the hemisphere. The whole concept is that rules are to be followed. Until this blemish on NAFTA implementation is corrected, the U.S. is in a difficult position in arguing for other countries to follow particular trade rules.

The failure to open up the U.S.-Mexico border under the NAFTA timetable has become intertwined with the failure to solve a number of other NAFTA transportation provisions as well as a number of "doing business" issues in Mexico. These include beginning a process to open up transportation companies to investment from across the border, removing restrictions on scheduled passenger bus service across the border, providing national treatment in Mexico for small package delivery operations, use of 53-foot trailers, Mexican restrictions on truck leasing and several pending investment disputes with Mexico.

The border is ready to open. Leading up to the December 18, 1995, date there was much activity to get ready for this border opening. There was an extensive industry safety training program sponsored by the states, the three NAFTA governments, and the industry. Senior government representatives from both California and Texas told the press their states were prepared for the border opening. Since, government and private-sector leaders have continued initiatives to ensure a safe border. For example, all border states have made improvements at border crossings; Mexico joined the Commercial Vehicle Safety Alliance (CVSA), an organization of state and provincial officials that works to assure that compliance and enforcement procedures; and Under the Land Transport Standards Subcommittee (LTSS), established under NAFTA, the U.S., Mexico and Canada have agreed on critical safety areas that would be reviewed and approved before a carrier could begin cross-border operations.. In addition, the private sector is helping lead the way toward smoother border operations. For example, the Business Anti-Smuggling Coalition (BASC) is a voluntary program for corporate participants to establish self-imposed standards in the areas of security, safety and logistics that will significantly hinder drug traffickers from using legitimate business shipments as vehicles to smuggle illicit drugs into the United States. This alliance of private sector firms is supported by the U.S. Customs Service and is an initiative led by the U.S.-Mexico Chamber of Commerce with the Border Trade Alliance. It involves seminars to impart knowledge of "best practices" and ideas on packing and shipping which can reduce the danger of illegal use of cargo.

ENVIRONMENT

The 2,000 mile U.S.-Mexico border separates two countries with significantly different income levels. The development of appropriate infrastructure to deal with increased commerce, continuing the process of reducing environmental degradation, and improving working conditions on both sides of the border, will be essential to maintain confidence in NAFTA.

The United States and Mexico have made progress over the past three years addressing three decades of deteriorating environmental conditions along the U.S.-Mexico border. The North American Agreement on Environmental Cooperation (NAAEC) was approved as a side agreement to NAFTA to insure that all parties enforce national and international environmental laws and address environmental issues that arise as a result of NAFTA implementation.

- There has been improved environmental regulations and positive action to jump-start two new environmental institutions set up to address environmental infrastructure problems on the U.S.-Mexico border. Both the Border Environment Cooperation Commission (BECC) and the North American Development Bank (NADBank) have developed mechanisms for community participation, and have approved and allocated loan funds for infrastructure projects. In addition, the Border XXI Program, a plan by the U.S. and Mexican governments to address border environmental issues and assure sustainability, has received extensive citizen input and the final version of the plan was published in October 1996.
- The Commission for Environmental Cooperation (CEC) was created to oversee the implementation of NAFTA's environmental side agreement.
- The U.S. Congress recently named the U.S.-Mexico Chamber of Commerce as the recipient of a grant—through the Department of Commerce—to improve the U.S.-Mexico business community's access to Mexico's environmental rules. The goal of the grant-funded ACCESS–MEXICO project is to remove non-tariff barriers present in regulatory uncertainty, enhance business opportunities and promote sustainable environmental practices.

ACCESSION

The NAFTA contains a very simple clause which states that if agreed to by the United States, Mexico, and Canada, other countries can accede to this agreement. In June 1995, officials of the United States, Mexico, and Canada agreed that negotiations should begin regarding Chile's accession to the NAFTA.

- In the fall of 1996, when the President was unable to obtain fast-track negotiating authority, Chile withdrew from the negotiations and has negotiated separate bilateral arrangements with Mexico and Canada.
- Under fast tract negotiating authority, the Congress delegates to the President the authority to negotiate a trade agreement involving tariff reductions and agrees to either vote *for* or *against* the agreement and not amend it. This authority is essential—historically the Congress has been unsuccessful in carrying out trade negotiations because of the diverse views of its members and because countries are unwilling to negotiate with the President an agreement which can be changed by the U.S. Congress.
- In December 1994 the 34 democratically elected leaders in this Hemisphere agreed to forge a Free Trade Area of the Americas (FTAA) by 2005. If the strong rules-based disciplines contained in the NAFTA are to become the norm in the hemisphere, it is imperative that the President be given fast track authority by the

Congress so that Chile can be admitted and momentum for this type of Hemispheric agreement can be obtained.

Canada and Mexico are reaching out to other countries in the hemisphere and signing bilateral trade agreements. These arrangements put U.S. firms at a competitive disadvantage compared with their Canadian and Mexican counterparts.

CONCLUSION

NAFTA has locked in fundamental economic reforms in Mexico and, under President Zedillo, these reforms are being widened and deepened. With the increase in commerce between the United States and Mexico, which began in the late 1980s and accelerated with NAFTA, the lives of the citizens of the United States and the citizens of Mexico are being improved. The few trade irritants which exist today can and should be dealt with promptly by the U.S. and Mexican governments.

Mexico and the United States share a 2,000-mile border. The geographic reality will not change. It is, therefore, crucial for both countries to confront bilateral and regional economic and political issues. NAFTA has offered a strong framework for economic relations. As a good neighbor, it is important the United States continue to move forward with a worthy partner as we enter the 21st century.

Meanwhile, the Chamber strongly believes the United States government should apply the lessons learned from NAFTA to a proposed Free Trade Area of the Americas. The Chamber believes fast track authority for the President of the United States will allow negotiation of a fair agreement built upon the successful NAFTA framework. In the end, such an agreement will certainly benefit the producers and consumers in the United States and throughout the region. One final note, the U.S.-Mexico Chamber of Commerce has joined the Greater American Business Coalition to serve as a catalyst for what promises to be a permanent contribution to economic and political relations in the Americas.

The United States-Mexico Chamber of Commerce (USMCOC), incorporated in 1973 in the District of Columbia as a 501 (c)(6) non-profit corporation, is a chartered binational chamber promoting trade and investment between the two American nations. The USMCOC represents more than 1,000 businesses and maintains offices in Washington, D.C., Mexico City, Los Angeles, San Diego, Dallas, New York, Denver, Chicago, Tampa, Seattle, Detroit, Guadalajara and Monterrey.

Mr. CAMP. Mr. Beckman.

STATEMENT OF STEVE BECKMAN, INTERNATIONAL ECONOMIST, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)

Mr. BECKMAN. Thank you, Mr. Chairman. It's a pleasure to be here today, and I appreciate the opportunity to appear before the Subcommittee on behalf of the 1.3 million active and retired UAW members.

We believe that NAFTA is a severely flawed model of international economic integration. Fixing the damage it has caused in the United States, Canada, and Mexico must be our first trade policy objective, not extending it to additional countries. Therefore, the UAW strongly opposes providing fast track trade negotiating authority which would be used to expand NAFTA to the rest of South America.

The rules incorporated into NAFTA protect the investments and operations of multinational corporations and ignore the interest of workers in their communities in the process of regional economic integration. As a consequence, workers in the United States have seen their wages and incomes stagnate, their job security eroded, and threats of plant closings increase. The impact of NAFTA on these aspects of workers' lives is as important as the job losses sustained. The absence of wage increases in the face of productivity gains, the pervasive fear of corporate downsizing or relocation to pad the bottom line, and the outrageous pay increases for top corporate executives all contribute to the growing inequality in the distribution of U.S. incomes that NAFTA has reinforced.

NAFTA's contribution to the intimidation of workers is most apparent in what is taking place in organizing campaigns. A Cornell University study found that more than half of the employers threatened to close their operations in response to union organizing drives, and that since NAFTA became effective, three times as many of them follow through on their threats, if the union wins the right to represent the workers.

The UAW has been confronted with employer threats to close plants and move work to Mexico, citing NAFTA as the justification, as part of management campaigns to prevent workers from joining our union. At NTN Bower in Macomb, Illinois, the company distributed a leaflet that made the blatant threat that if the workers chose to join the UAW, their "jobs may go South for more than the winter." To reinforce this threat, the leaflet notes that, "There are Mexicans willing to do your job for $3 and $4 an hour. Free Trade Treaty allows this." NAFTA, thus, serves to support employer intimidation that restricts the ability of American workers to improve their living standards and working conditions through collective bargaining.

The North American Agreement on Labor Cooperation, the NAALC, has been a failure in correcting the abuse of worker rights in the NAFTA countries. Violations of the fundamental rights of freedom of association and the right to organize and bargain are not even subject to the labor side agreement's dispute resolution procedures. The cases that have been filed have not led to the illegally fired workers being rehired, and the offending employers have suffered no sanctions. The ability of independent unions to survive and expand in Mexico has not been advanced by the NAALC. They remain under attack.

Thus, in these cases there are no effective remedies for the continuation of lax enforcement and inadequate worker protections. The teeth needed to make the NAALC an instrument for progress in worker rights and labor standards are lacking, leaving it an ineffective tool.

In assessing NAFTA, the impact on the auto industry must be given considerable weight due to the major contribution of trade in this industry to overall NAFTA trade. United States auto trade with Mexico and Canada accounts for more than one-fourth of the total trade. Not surprisingly, in the 3 years after NAFTA was approved, the U.S. auto trade deficit has increased dramatically, more than doubling from $13.1 billion in 1993 to $26.6 billion in 1996. Using the Department of Commerce's multiplier, lost job opportunities in the U.S. auto industry due to this imbalance exceed 200,000.

The United States deficit in auto trade with Mexico has led this trend. It's increased by more than 300 percent under NAFTA, from $3.6 billion in 1993 to $14.6 billion in 1996. United States automotive imports from Mexico more than doubled over that period while United States exports inched up by 11 percent.

The United States auto trade deficit with Canada has steadily worsened since NAFTA went into effect. At $11.9 billion in 1996, the U.S. deficit is up from $9.5 billion in 1993. The inequitable terms of the United States-Canada Free Trade Agreement's auto provisions, which left United States production at a disadvantage, were retained in NAFTA, and the auto trade imbalance has continued to expand.

The conclusion drawn by the UAW from our analysis of NAFTA is that it's been an utter failure in meeting the concerns of workers in the United States, Mexico, and Canada in the process of North American economic integration. NAFTA, therefore, must not be used as the model for further regional integration or the negotiation of additional international trade and investment agreements. That's why the UAW opposes providing the administration with fast track negotiating authority.

A much broader approach to economic and social development is needed to address the varied impacts of North American economic integration. fast track proposals being discussed, instead of addressing these concerns, are more restrictive than previous negotiating authority. Instead of insisting on the full inclusion of additional issues as fundamental to trade and investment agreements, they're being marginalized and discounted.

The proposal made by Chairman Archer to specify in fast track legislation that the negotiating objectives include labor and environmental provisions that are directly trade-related would represent a weakening of the already-inadequate language of the 1988 Omnibus Trade and Competitiveness Act. Statements by Chairman Archer indicate that this language would only cover worker rights and standards if they impede trade in any way, rather than provisions that seek to promote respect for internationally recognized worker rights and standards in international trade. It's the objective of the UAW and organizations of workers and our allies around the world in developed and developing countries alike to promote respect for those rights and standards.

In conclusion, Mr. Chairman, the UAW appreciates the opportunity to testify before the Subcommittee. In our judgment, NAFTA has been a huge failure, especially for workers in the automotive industry. Accordingly, we urge you to reject the administration's request for new fast track trade negotiating authority. It would only be used to add to the already-intense downward pressure on American workers' incomes, put hundreds of thousands of American jobs in jeopardy, and extend a failed model of economic development to additional countries in South America and elsewhere, to the detriment of the well-being of millions of workers.

Thank you.

[The prepared statement follows:]

Statement of Steve Beckman, International Economist, International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW)

Mr. Chairman, my name is Steve Beckman. I am an international economist for the UAW and I appear before the Subcommittee today on behalf of the 1.3 million active and retired UAW members.

The UAW appreciates the opportunity to share its views with the Subcommittee on the impact of the North American Free Trade Agreement (NAFTA). In our view, the "Study on the Operation and Effects of the North American Free Trade Agreement" sent to Congress in July by President Clinton does not accurately describe NAFTAs impact on workers, their families and communities. The job losses, downward pressure on workers incomes and intimidation in union organizing campaigns experienced by UAW members and other American workers are not recognized in that report. We believe that NAFTA is a severely flawed model of international economic integration; fixing the damage it has caused in the U.S., Canada and Mexico must be our first trade policy objective, not extending it to additional countries. Therefore, the UAW strongly opposes providing "fast track" trade negotiating authority, which would be used to expand NAFTA to the rest of South America.

The rapid growth of U.S. trade deficits with Mexico and Canada demonstrates the flaws in NAFTA. In the three years NAFTA has been in effect, the U.S. merchandise trade deficit with our NAFTA partners has sharply and steadily escalated from $9 billion in 1993 to $13 billion in 1994, $34 billion in 1995 and $39 billion in 1996. The Economic Policy Institute has estimated that U.S. job losses attributable to this trade debacle total more than 400,000. U.S.-Mexico trade has accounted for about two-thirds of the worsening trade deficit and U.S.-Canada trade for one-third. The U.S. trade deficit with Canada, at $23 billion in 1996, was still higher than the $16 billion deficit with Mexico.

The defenders of NAFTA have pointed to the increase in U.S. exports to Mexico and Canada as proof that the agreement is working and creating jobs for American workers. The Administration study notes that, in 1996, goods exported to Mexico and Canada supported 2.3 million U.S. jobs. Further, it claims that exports have contributed one-third of recent economic growth. This one-sided examination of international trade—the export side—has become a common practice for those who want to ignore the record U.S. trade deficits in recent years, including 1996, and the adverse employment effect of those imports. For American workers, it is not possible to simply ignore the reality that increased U.S. imports displace them from their jobs and eliminate new job opportunities. The staggering increase in U.S. trade deficits with Mexico and Canada since NAFTA went into effect in 1994 is an important measure of the negative impact of the agreement.

Much of the trade that takes place among the three NAFTA countries is intra-company trade rather than international shipments by competing companies. This is largely the case in automotive trade, which accounts for about one-fourth of all NAFTA trade. The Administration asserts that the rapid growth of U.S. imports from Mexico doesnt displace American jobs because most of those imports displace imports from other regions. But the truth is that the increase in U.S. imports of motor vehicles from Mexico includes Chevrolet Suburbans, Dodge Ram trucks, Ford F-series trucks and other vehicles that are made in the U.S. by U.S.-based companies. They do not displace non-North American exports to this country. The same is true for many other industries. This is reflected in the large number of NAFTA–TAA certifications for production shifts to Mexico.

Because much of the trade is carried out by such companies, the Administrations assumption that workers in export industries earn substantially higher wages than workers in import-competing industries is contradicted by the experience of workers. In the auto industry, the same companies export to Mexico and import from Mexico; the wages of the U.S. workers whose job opportunities are lost due to the increase in imports from Mexico have the same wages as the U.S. workers who make the products that are exported.

The argument that increased exports have been a major contributor to economic growth is intentionally misleading. The main indicator of economic growth, gross domestic product (GDP), measures the impact of trade on growth by looking at "net exports," exports minus imports. That measure has been a steady negative factor in U.S. economic growth because of the surge in U.S. imports. The shift in the balance of U.S. trade with Mexico and Canada, from a U.S. deficit of $9.1 billion in 1993 to $39.0 billion in 1996, shows the depressing effect of NAFTA trade on the U.S. economy since the agreement went into effect.

The rules incorporated into NAFTA protect the investments and operations of multinational corporations and ignore the interests of workers and their communities in the process of regional economic integration. As a consequence, workers in the U.S. have seen their wages and incomes stagnate, their job security eroded and threats of plant closings increase. The impact of NAFTA on these aspects of workers lives is as important as the job losses sustained. The absence of wage increases in the face of productivity gains, the pervasive fear of corporate downsizing or relocation to pad the "bottom line" and the outrageous pay increases for top corporate executives all contribute to the growing inequity in the distribution of U.S. incomes that NAFTA has reinforced.

NAFTAs contribution to the intimidation of workers is most apparent in what is taking place in union organizing campaigns. A Cornell University study found that more than half of employers threaten to close their operations in response to union organizing drives and that, since's as many of them follow through on their threats if the union wins the right to represent the workers. The UAW has been confronted with employer threats to close plants and move work to Mexico, citing NAFTA as a justification, as part of management campaigns to prevent workers from joining our union. At NTN Bower in Macomb, Illinois, the company distributed a leaflet that made the blatant threat that, if the workers chose to join the UAW, their "jobs may go south for more than the winter!" To reinforce this threat, the leaflet notes that "There are Mexicans willing to do your job for $3 and $4 an hour. Free Trade Treaty allows this!" NAFTA thus serves to support employer intimidation that restricts the ability of American workers to improve their living standards and working conditions through collective bargaining.

The Administration tries to turn attention away from the adverse impact of NAFTA in its study by pointing to the strong U.S. economic performance since 1993. The low unemployment rate and employment growth are cited as evidence that U.S. trade deficits, and the deficit with Mexico, could not have reduced employment. It is necessary only to speak with the workers who have lost their jobs to correct that assessment. The beneficiaries of the strength in the U.S. economy and the increased economic integration with Mexico and Canada that NAFTA facilitates have been the wealthiest citizens of the three countries, not working people.

To deflect blame from NAFTA, the agreements proponents have attributed the large U.S. trade deficit with Mexico and the related U.S. job displacement to the December 1994 peso devaluation. The Administration study does this in citing a DRI analysis that finds NAFTA had a positive effect on the U.S. economy "controlling for the peso crisis." The devaluation was carried out by the same economic policy team in Mexico that U.S. negotiators had endorsed in trumpeting NAFTAs importance. NAFTA would keep Mexico on the right econoicies the U.S. advocated, they told us. The Administration cited the U.S. trade surplus with Mexico in 1992 as a preview of the results that we could continue to expect if NAFTA kept the Mexican government on this path of economic liberalization. It turned out that the Mexican government was not able to sustain continuing trade deficits with the U.S. The devaluation reinforced the use of Mexico as an export platform for production for the U.S. market, with the predictable result of a soaring U.S. trade deficit—$15 billion in 1995 and $16 billion in 1996.

The Administration also claims that NAFTA limited the devaluations damage to U.S. exports to Mexico and hastened the Mexican economys recovery from its domestic impact. This is not convincing. The study claims that U.S. imports from Mexico increased because the devaluation lowered their cost in dollars, but acknowledges no similar adverse effect on U.S. exports to Mexico. In fact, the devaluation priced many American-made products out of the Mexican market, overwhelming the reduction of Mexican tariffs that NAFTA achieved. The reason that U.S. exports to Mexico did not fall more than they did is not attributable to NAFTA; the explanation lies in the small share of consumer goods that the U.S. exports to Mexico. A high proportion of U.S. exports are fabricated or assembled in Mexico and shipped back to the U.S. for sale. The change in the dollar-peso exchange rate affected this trade because the dollar-denominated cost of Mexican products and labor fell dramatically, making this export-oriented activity in Mexico even more profitable. As a result, many exports to Mexico were unaffected and maquiladora production increased rapidly to take advantage of the lower costs.

The contribution of NAFTA to the economic "recovery" in Mexico is equally unconvincing. The growth in Mexicos economy has been concentrated in production for export, not in workers incomes. Millions of Mexicans find themselves in poverty as a result of the economic policies promoted by NAFTA, but Mexicos exports are mushrooming. The inflation-adjusted wage of the average Mexican worker is about 25 percent lower now than when NAFTA went into effect, so the effective buying power and living standards of Mexican workers have suffered greatly since 1993.

The North American Agreement on Labor Cooperation, NAALC, has been a failure in correcting the abuse of worker rights in the NAFTA countries. Violations of the fundamental rights of freedom of association and the right to organize and bargain are not even subject to the labor side-agreements dispute resolution procedures. The cases that have been filed have not led to illegally fired workers being rehired and the offending employers have suffered no sanctions. The ability of independent unions to survive and expand in Mexico has not been advanced by the NAALC; they remain under attack. Thus, in these cases, there are no effective remedies for the continuation of lax enforcement and inadequate worker protections. The teeth needed to make the NAALC an instrument for progress in worker rights and labor standards are lacking, leaving it an ineffective tool.

The Administration study of the NAALC is misguidedly rosy. As the Administration states, it has created a forum for raising objections to the treatment of workers in the NAFTA countries. But it is a forum that does not have the power to resolve the real-life struggles of workers who are trying to exercise their rights. Many of the cooperative activities described in the study were under way prior to NAFTAs negotiation. They are informational and do not include any concerted effort to improve standards and set tri-national criteria for effective enforcement.

In assessing NAFTA the impact on the auto industry must be given considerable weight due to the major contribution of trade in this industry to overall NAFTA trade. U.S. auto trade with Mexico and Canada accounts for more than one-fourth of total trade. Not surprisingly, in the three years after NAFTA was approved the U.S. auto trade deficit has increased dramatically, more than doubling from $13.1 billion in 1993 to $26.6 billion in 1996. Using the Department of Commerces multiplier, lost job opportunities in the U.S. auto industry due to this imbalance exceed 200,000. As U.S. and other multinational auto companies continue to respond to the NAFTA auto provisions with investments in production in Canada and Mexico that supply the U.S. market, this deficit and the adverse impact on American jobs will only worsen.

The U.S. deficit in auto trade with Mexico has led this trend. It has increased by more than 300 percent under NAFTA, from $3.6 billion in 1993 to $14.6 billion in 1996. U.S. automotive imports from Mexico more than doubled over that period, while U.S. exports inched up by 11 percent. Mexico has become an increasingly important supplier of vehicles and parts to the U.S. In 1996, U.S. imports of motor vehicles from Mexico reached 771,000. Most of the vehicles shipped to the U.S. are, or were, also produced in the in this country.

The U.S. auto trade deficit with Canada has steadily worsened since NAFTA went into effect. At $11.9 billion in 1996, the U.S. deficit is up from $9.5 billion in 1993. The inequitable terms of the U.S.-Canada Free Trade Agreements auto provisions, which left U.S. production at a disadvantage, were retained in NAFTA and the trade imbalance has continued to expand.

The treatment of NAFTAs impact on auto industry trade in the Administration study is off-base in many areas. In claiming that NAFTA has been beneficial to production and employment in the U.S. auto industry, the Administration makes a variety of assertions that simply do not stand up to scrutiny. Here is just one example:

"Increased U.S. exports of cars and light trucks to Mexico were directly attributable to reductions in Mexican trade balancing requirements and lower Mexican tariffs brought about by NAFTA." (page 45)

Without access to specific company data, it is impossible to verify this assertion, but the aggregate numbers provide sufficient guidance to show that this claim is inaccurate. If the trade balancing requirements had remained in effect, it would take $1.75 in exports from Mexico to import each $1.00 in value of vehicles from the U.S. From 1993 to 1996, automotive exports from Mexico to the U.S. increased by $12 billion and U.S. exports of vehicles to Mexico increased by $1.1 billion. Using the Mexican trade balancing formula, the $12 billion increase in Mexican exports should have allowed six times the increase in vehicle exports that actually occurred. The trade balancing limits would not have been a limiting factor in U.S. vehicle exports to Mexico in 1996. The phenomenal growth of U.S. imports from Mexico and the related increase in the U.S. auto trade deficit, from $3.6 billion in 1993 to $14.6 billion in 1996, are the critical industry developments that have taken place under NAFTA.

The study states: "NAFTA has enabled Ford to make its established plants in Mexico more efficient. Ford decided to consolidate all production of Ford Thunderbirds and Mercury Cougars at its Lorain, Ohio assembly plant, discontinuing low volume production of these two models at its Cuautitlan plant in Mexico." (page 46) This year, Ford ended production of the Thunderbird and Cougar, leaving a hole in the Lorain plants production. Was Ford completely unaware of the potential for such a result when it made this decision? Now, Ford is producing larger volumes of F-series trucks at its Cuautitlan plant and shipping them to the U.S., which it had not done prior to NAFTA. Where are the American workers who benefited from this "increased efficiency"?

The report takes great pains to note that investments by the Big Three auto companies in the U.S. totaled $39 billion from 1993 to 1996 and that their investments in Mexico were only $3 billion. Truck capacity in the U.S. grew by nearly 400,000 and in Mexico by 144,000. The Administrations study fails to mention that, in anticipation of more fully using their Mexican plants, the Big Three made substantial investments in Mexico prior to NAFTA. According to the Mexican government, these companies invested $3 billion in the six years up to and including 1994. This was their share of a total of more than $10 billion invested in the industry during that period. Since additional investments were made by the Big Three in 1995 and 1996, their total recent investments in Mexico exceed $3 billion. Without those investments, the tremendous increase in the U.S. auto trade deficit with Mexico would not have been possible.

The increases in truck capacity can be viewed in a different light. The 394,000 increase in U.S. capacity cited in the study would add about 20 percent to U.S. production capacity as of 1993. The additional capacity of 144,000 would double Mexicos 1993 capacity. The new truck plants in Silao (GM) and Saltillo (Chrysler) almost certainly added more than the announced capacity. In the case of the U.S., some of the new truck capacity could have come at the expense of car production capability, adding little to potential overall U.S. production and employment; the new capacity in Mexico is attributable to new plants which will clearly add to total Mexican vehicle production.

The study tries to downplay the significance of the gusher of increased automotive imports from Mexico by noting the U.S. content of the vehicles assembled there. In addition, the study states that increased U.S. imports of auto parts from Mexico were the result of increased U.S. production. We are certainly aware that U.S.-made parts are shipped to Mexico for assembly there and that they could contribute to increasing employment for American auto workers. However, the vehicles and parts imported from Mexico displace production that would otherwise take place in this country. The imported vehicles are identical to vehicles made in the U.S. The best measure of whether the U.S. content in those vehicles is contributing to U.S. employment is the trade balance—are we importing more of these vehicles and parts than we are exporting? The answer is crystal clear: the auto trade deficit with Mexico has increased in every year of NAFTAs implementation and the jobs of American workers have been sacrificed in the process.

If the increase in U.S. imports of auto parts from Mexico was simply to keep up with the growth of U.S. production, the value of U.S. imports would have increased by 6.8 percent from 1993 to 1996. In fact, U.S. imports increased by 57 percent, indicating that something more substantial that volume gains was responsible. The value of parts imports from Mexico per vehicle assembled jumped from $680 in 1993 to $980 in 1996. Not all imported parts are used in new vehicles, but this provides an idea of how much parts imports from Mexico have grown.

Finally, the Administration study, in discussing the recent Nissan and Volkswagen investments in Mexico, says that they "were aimed at accommodating increased sales in Mexico as well as the addition of new model production." (page 50). In other words, these investments did not come at the expense of U.S. production. In the case of Volkswagen, that is just not so. VW closed its plant in Westmoreland, Pennsylvania in 1988, when its ten years of state incentives expired, and moved production of the Golf and Jetta models made there to Mexico. Investments in Mexico were primarily to modernize and expand production of those models, with the U.S. market as a major target.

There are many other areas of the Administration study that deserve comment and criticism. This lengthy presentation of UAW disagreements with the NAFTA study presented to Congress by the Administrations is not exhaustive. There are many more issues on which we believe the Administrations analysis is wrong or misleading. We could provide the Subcommittee with additional examples. The conclusion drawn by the UAW from our own analysis is that NAFTA has been an utter failure in meeting the concerns of workers in the process of North American economic integration. NAFTA, therefore, must not be used as the model for further regional integration or the negotiation of additional international trade and investment agreements. That is why the UAW opposes providing the Administration with "fast track" negotiating authority at this time. The agenda of negotiations that would be undertaken with that authority would be no better than the NAFTA agenda, and the results from that agenda are in. It is unacceptable to UAW members and it is detrimental to the interests of American workers.

Since it is expected that new negotiating authority would be used to expand NAFTA to include Chile and other South American countries, the UAW is particularly concerned about the impact this could have on automotive trade in the region. Just as NAFTA facilitated the industry restructuring in Mexico that has led to its use as a major export platform to the U.S., we believe that NAFTAs extension could reinforce the restructuring process underway in the large auto industries of Brazil and Argentina to bring about similar results. Already, auto producers have announced massive investments in new vehicle and parts capacity in these two countries. Under NAFTAs terms, much of that production could be shipped to the U.S. and displace U.S. production and jobs. U.S.-based producers of vehicles and parts are among the major investors in South America. They already produce for the local market and export some products back to this country. This was the situation in

Mexico in the years prior to NAFTA and we are concerned that an export explosion from these countries may occur. Similar to the process in Mexico, workers in Brazil, for instance, are already finding that increased productivity is leading to job cutbacks and reduced incomes for workers. They share our interest in reversing the anti-worker impact of the restructuring process that has accompanied NAFTA.

A much broader approach to economic and social development, taking into consideration many of the subjects that the NAFTA negotiators explicitly rejected, such as debt relief, immigration, exchange rates and raising labor and environmental standards, is needed to address the varied impacts of North American economic integration. The "fast track" proposals being discussed, instead of addressing these concerns, are more restrictive than previous negotiating authority. Instead of insisting on the full inclusion of these additional issues as fundamental to trade and investment agreements, they are being marginalized and discounted.

The proposal made by Chairman Archer to specify in "fast track" legislation that the negotiating objectives include labor and environment provisions that are "directly trade-related" would represent a weakening of the already inadequate language in the 1988 Omnibus Trade and Competitiveness Act. The most critical and widely accepted worker rights, freedom of association, the right to organize and bargain collectively and minimum labor standards, would be excluded from "fast track" coverage by such a restrictive formulation. Statements by Chairman Archer indicate that this language would only cover worker rights and standards if they impede trade in any way, rather than provisions that seek to promote respect for internationally recognized worker rights and standards in international trade. It is the objective of the UAW and organizations of workers and our allies around the world, in developed and developing countries alike, to promote respect for those rights and standards.

The need for stronger, not weaker, language on worker rights and trade is demonstrated by the inadequacy of the NAFTA side agreement on labor negotiated by the Administration. This agreement was reached under the 1988 language that did not restrict negotiations to "directly trade related" provisions. Still, as pointed out earlier, it lacks the coverage and enforcement capabilities to effectively defend the worker rights and standards that it claims to protect. If, as has been reported, even this weak agreement on labor could not have been negotiated under the "directly trade related" language proposed by Chairman Archer, this is another measure of the stifling impact on worker rights negotiations that would be imposed by the proposed language

The mere mention of the words "labor" and "environment" in the list of negotiating objectives should not be confused with a requirement that these issues be included in trade agreements and subject to their dispute resolution procedures. After all, worker rights have been included among U.S. trade negotiating objectives since 1974 without producing any substantive progress in the agreements reached under the "fast trsting labor and environment simply as negotiating objectives is no longer acceptable to American workers. Action on these issues is demanded.

In conclusion, Mr. Chairman, the UAW appreciates this opportunity to testify before the Subcommittee and to present our views on the Administrations "Study on the Operation and Effects of the NAFTA" and on the important issue of "fast track" negotiating authority. In our judgment, NAFTA has been a huge failure, especially for workers in the automotive industry. Accordingly, we urge you to reject the Administrations request for new "fast track" trade negotiating authority. It would only be used to add to the already intense downward pressure on American workers incomes, put hundreds of thousands of American jobs in jeopardy and extend a failed model of economic development to additional countries in South America and elsewhere to the detriment of the well-being of millions of workers.

Mr. CAMP. Thank you.

Ms. Hoffman.

STATEMENT OF JAY MAZUR, PRESIDENT, UNION OF NEEDLETRADES, INDUSTRIAL AND TEXTILE EMPLOYEES; AS PRESENTED BY ANN HOFFMAN, LEGISLATIVE DIRECTOR, UNION OF NEEDLETRADES, INDUSTRIAL AND TEXTILE EMPLOYEES

Ms. HOFFMAN. Mr. Chairman, I regret that president Mazur's schedule did not permit him to stay here this afternoon. My name is Ann Hoffman. I'm legislative director of UNITE. We want to thank you for the opportunity to testify.

UNITE, the Union of Needletrades, Industrial and Textile Employees, represents 300,000 workers in textile, apparel, and other related industries in two of the NAFTA countries: The United States and Canada.

It has been over 3½ years since NAFTA went into effect. The results are in. For workers in the United States, Mexico, and Canada, NAFTA has been a failure. Using the Department of Commerce multipliers, the increase in the United States trade deficit with Mexico and Canada has cost the United States over 420,000 jobs since 1993.

What has happened to workers in general has happened even more to workers in the apparel and textile industries. Department of Labor figures show that the U.S. apparel industry lost more jobs in 1996 than any other private sector industry. Apparel employment is just about half of what it was at its peak in 1973. In the last 2 years alone, 16 percent of garment workers in the United States have lost their jobs.

Apparel factories in the United States are most frequently located in innercities and rural areas. They often provide the only jobs for miles around with decent wages and, in union shops, health benefits, paid vacations, holidays, and pensions. When those apparel factories close, workers cannot maintain their living standards, if they can find new jobs at all.

As bad as NAFTA has been for jobs, it may have damaged wage levels even more. During the debate over NAFTA, a Wall Street Journal poll found that a majority of executives from large companies already had plans to shift some production to Mexico, and that a large number intended to use NAFTA as a bargaining chip to keep down wages in the United States They have succeeded.

NAFTA's single biggest deficit is its failure—defect; I'm sorry—is its failure to address workers' rights, the right to strike, the right to organize, the right to freely associate, the right to livable wages and decent working conditions. The failure to insist that Mexico enforce its labor laws has meant that Mexican wages failed to rise. As long as Mexican workers don't get a fair deal, wages in Mexico will not rise. Mexican workers will not be able to buy the clothing that they make for United States manufacturers, let alone the clothing that UNITE members make in the United States and Canada.

Mexico's attraction for corporations is not the small Mexican consumer market. Mexico's entire economy is less than 4 percent of the U.S. economy. The attraction for U.S. corporations is the labor force of more than 30 million people willing to work for a tiny fraction of U.S. wages.

The story of Guess, Inc., the designer jeans company, shows what is wrong with NAFTA. Earlier this afternoon, an 11-year employee of Jeans Plus in Los Angeles, a major contracting shop doing work for Guess, was across the street speaking to some of your colleagues. Enriqueta Soto held up a pair of Guess jeans just like these with the label reading, "Guess USA, American tradition, assembled in Mexico."

Ms. Soto held up a pair of jeans that could have helped her support her family, but she lost her job when she and her coworkers objected to working for their shop at illegally low wages and then tried to organize a union to improve their working conditions. Enriqueta Soto is one of the hundreds of thousands of formerly employed American workers who were never consulted when the President compiled his Comprehensive Review of the North American Free Trade Agreement.

The real problem is not trade with Mexico and Canada, but rather the specific set of rules included in NAFTA. Our current trade agreements protect investors, multinational corporations, patent and copyright holders, and speculators; workers are the only interested party whose rights are not addressed by these agreements.

Before we extend NAFTA, we need to fix it. Therefore, we urge you not to grant fast track negotiating authority again.

Thank you very much.

[The prepared statement follows:]

Statement of Jay Mazur, President, Union of Needletrades, Industrial and Textile Employees

UNITE, the Union of Needletrades, Industrial and Textile Employees, represents 300,000 workers in textile, apparel and other related industries in two of the NAFTA countries, the United States and Canada. I appreciate the opportunity provided by the Subcommittee to share our views on the impact of the North American Free Trade Agreement.

It has been over three and a half years since NAFTA went into effect. The results are in. For workers in the United States, Mexico and Canada, NAFTA has been a failure. The U.S. and Canada have lost hundreds of thousands of jobs because of NAFTA. Mexico has been trapped in a severe economic crisis in which workers bear the largest burden. The U.S.-Mexico border was a health and environmental disaster when the NAFTA agreement was signed in 1994. Today, the border area is even worse, because of additional health and environmental problems caused by NAFTA.

NAFTA's Impact on American Workers

In 1993, the year before NAFTA took effect, the U.S. had a $1.7 billion trade surplus with Mexico. After NAFTA, however, our trade surplus with Mexico became a $16.2 billion trade deficit. During the same period our trade deficit with Canada also grew. Based on standard employment multipliers, the increase in the U.S. trade deficit with Mexico and Canada has cost he U.S. over 420,000 jobs since 1993.

When workers lose their jobs because a plant relocates to Mexico, they usually experience a serious decline in their standard of living, even if they get new jobs. Workers rehired after losing their jobs in the early 1990's suffered an annual pay loss of over $4,400.

What has happened to workers in general has happened even more to workers in the apparel and textile industries. Department of Labor figures show that the U.S. apparel industry lost more jobs in 1996 then any other private sector industry. Apparel employment is just about half of what it was at its peak in 1973. In the last two years alone 16 percent of apparel workers lost their jobs.

Apparel factories are most frequently located in inner cities and rural areas of the United States. They are often in places where they provide the only jobs with decent wages and, in union shops, health benefits, paid vacations and holidays and pensions. When those apparel factories close, workers cannot maintain their living standards, if they can find new jobs at all.

As bad as NAFTA has been for jobs, it may have damaged wage levels even more. During the debate over NAFTA, a Wall Street Journal poll found that a majority of executives from large companies already had plans to shift some production to Mexico and that a large number intended to use NAFTA "as a bargaining chip to k in more than half of union organizing drives, the threat of moving jobs to Mexico or closing plants was used to limit organizing success.

NAFTA contributes to a corporate strategy—investment overseas, production cutbacks at home and sharp demands for wage and benefit concessions from workers—that has had a devastating impact on American families. Hundreds of thousands of people have lost their jobs, many of them permanently. Communities have been drained of resources and income, and years of accumulated skills have been wasted.

NAFTA'S IMPACT ON MEXICAN WORKERS

After NAFTA went into effect, Mexico fell into serious social political and economic crisis. The Mexican peso lost 50% of its value; the government was nearly bankrupt. An armed uprising in the southern Mexican state of Chiapas highlighted the country's economic, geographic and racial divisions. Political assassinations and allegations of corruption continue to undermine faith in the political system at the highest levels of government.

Defenders of NAFTA claim that the economic crisis in Mexico was not cause by NAFTA, but rather by Mexico's currency crisis. But, to ensure NAFTA's passage, the U.S. government supported a corrupt and financially incompetent political regime in Mexico. The Mexican government stalled on the necessary currency adjustments in order to attract U.S. investment and capital, and to ensure passage of NAFTA in Congress.

The Mexican economic crisis is characterized by two broad trends. Many Mexican manufacturers have gone bankrupt, resulting in the loss of over one million jobs in Mexico. Meanwhile, there has been an increase in foreign-owned manufacturers that export, mostly to the United States.

There has been a tremendous increase in the number of maquiladora plants—foreign-owned plants that receive special tax breaks and export almost all of their production to the U.S. There has also been an almost 50% increase in the maquiladora workforce since NAFTA took effect. According to the Mexican government, the maquiladoras employ more than 800,000 workers. Maquiladora plants are exempt from tariffs on imported raw materials and components as long as the final product is exported.

Mexican workers have borne the brunt of the economic crisis in Mexico. Despite significant increases in productivity and quality, real manufacturing wages in Mexico are 25% lower then they were before NAFTA.

WHY NAFTA ISN'T WORKING FOR WORKERS

NAFTA's single biggest defect is its failure to address workers' rights—the right to strike, the right to organize and the right to freely associate. The failure to insist that Mexico enforce its labor laws means that Mexican wages have failed to rise.

While businesses demanded—and got—provisions in NAFTA that require Mexico to protect the rights of investors, there is no similar provision for protecting the rights of Mexico's workers or, for that matter, Mexico's environment. If an investor's rights are violated in Mexico, someone can go to jail. If a worker's rights are violated in Mexico, all we can do is complain—and nobody is required to listen.

There is a labor side agreement—it isn't part of the actual trade treaty—that, in theory, addresses workers' concerns. In practice, the labor side agreement is nearly useless.

Five cases have been brought under the labor side agreement for violations of Mexico's labor laws. For example, in General Electric in Ciudad Juarez and Honeywell in Chihuahua, workers were fired for trying to organize independent unions. Those unions remain unrecognized. Those workers have not been reinstated. In short, the labor side agreements have produced no noticeable change in the way labor law operates in practice in Mexico.

As long as Mexican workers don't get a fair deal, and we can't help them try, wages in Mexico will not rise. Mexican workers will not be able to buy the clothing they make for U.S. manufacturers, let alone the clothing UNITE members make in the U.S. and Canada.

I was in maquiladoras just south of the U.S. border in February of this year. The plants I saw were more modern than almost any factory I have seen in the United States. The homes for the workers were like nothing seen in this country since the end of the Great Depression. Tar paper shacks, partly made from left over packing boxes used to ship in equipment and parts. No plumbing, no electricity, no privacy.

The wages workers earn at these jobs make it almost impossible to raise a family. Women I met talked about having to work three hours to buy a gallon of milk for their children. They wanted a better life.

WHO BENEFITS FROM NAFTA

The NAFTA legislation is almost exclusively concerned with protecting foreign investors in Mexico. Mexico's attraction for corporations is not the small Mexican consumer market; Mexico's economy is less than 4% of the U.S. economy. The attraction for U.S. corporations is the labor force of more than 30 million people willing to work for a tiny fraction of U.S. wages. Corporations seeking to maximize profits will tend to locate production where costs are lowest.

Of course, there are other factors: workers' skills and reliabilitylity, among others. Even so, the vast differences between wages in the U.S. and Canada and wages in Mexico and the inconsistent enforcement of labor standards and workplace regulations in Mexico combine to provide a powerful incentive for multinational corporations to move production to Mexico.

THE CASE OF GUESS?, INC. SHOWS WHAT'S WRONG WITH NAFTA

In 1992, Guess?, Inc., the designer jeans company, was one of the largest apparel manufacturers in Southern California. Ninety-seven percent of its production was performed by some 5,000 workers in its own factories or in 60 to 70 contracting shops in Southern California.

For a number of years, contractors working for Guess? were cited by the U.S. Department of Labor (DOL) for violations of federal minimum wage and overtime laws, as well as for child labor and industrial homework. In 1992, Guess? paid more than half a million dollars in back wages, and entered into an agreement with the DOL to monitor the contractors' practices in the future, to prevent further illegal treatment of workers.

Despite the monitoring agreement, sweatshop conditions continued in many factories doing work for Guess?. Workers later came to UNITE, interested in improving their wages and standards.

In the summer of 1996, the California Division of Labor Standards Enforcement (DLSE) discovered Guess? clothing in illegal industrial homework operations. DLSE also found violations of minimum wage and overtime laws at three Guess? contractors.

In August of 1996, UNITE filed charges with the National Labor Relations Board (NLRB) for massive violations of labor law, including threats to shut plants and move production outside of the country and illegal discharge of twenty workers. When the NLRB found evidence supporting the union's charges, Guess? entered into a settlement agreement to reinstate the twenty fired workers with $80,000 in back pay and to cease all violations of labor law.

The day after they signed that agreement, the Wall Street Journal reported that Guess? was in the process of moving most of its sewing operation to Mexico and other Latin American countries, in part because of union organizing efforts, allegations of sweatshop working conditions, and government investigations.

In short, faced with obeying the laws of the United States, paying legal wages and permitting its workers to form a union, Guess? took the NAFTA way out and moved to Mexico. In other words, employers who stay in the U.S. and obey our laws are penalized.

CONCLUSION

The real problem is not trade with Mexico and Canada, but rather the specific set of rules included in NAFTA. Our current trade agreements protect investors, multinational corporations, patent and copyright holders and speculators. Workers are the only interested party whose rights are not addressed by these agreements.

I have been in factories in all three NAFTA countries. I have seen the increase in violations of labor laws and labor standards in both Canada and the U.S. I have seen sweatshops within blocks of some of the most expensive real estate in New York City. I can tell you from my own observations that NAFTA has been a disaster for workers. That is not surprising. NAFTA was not drafted with workers' interests in mind.

Before we extend NAFTA we need to fix it. Therefore we urge you to reject the Administration's request for new "fast track" trade negotiating authority.

Mr. HOUGHTON [presiding]. Thank you very much, Ms. Hoffman. Mr. Brown.

STATEMENT OF REGINALD L. BROWN, DIRECTOR, MARKETING AND MEMBERSHIP, FLORIDA FRUIT & VEGETABLE ASSOCIATION, ORLANDO, FLORIDA

Mr. BROWN. Mr. Chairman, Members of the Subcommittee, my name is Reggie Brown. I'm the director of marketing and membership for FFVA, the Florida Fruit & Vegetable Association. FFVA is an organization comprised of growers of vegetables, citrus, sugarcane, tropical fruit, and other agricultural commodities in Florida. FFVA appeared before the Subcommittee on numerous occasions during the period leading up to congressional consideration of NAFTA. We welcome the opportunity to provide input on the Subcommittee's review of the impact of the North American Free Trade Agreement on U.S. industries.

Florida's unique geographical location in the United States affords growers an opportunity to provide American consumers with fruits and vegetables and seasonal crops during the months of the year when other domestic producers cannot grow and harvest these crops. Historically, competition for Florida's vegetables in the U.S. marketplace has not come from within the United States. Instead, it comes from the state of Santalua, Mexico, and other areas that have farmlands suitable for winter production in the Northern Hemisphere.

From the onset, Florida's agricultural industry expressed grave concerns about the potential impact of NAFTA, particularly in the winter vegetable industry. However, Florida was not alone in expressing concern over the agreement prior to its negotiation. Numerous fruit and vegetable producer organizations throughout the Nation also believed that they would be faced with increased competitive pressures from Mexico.

Florida fears are based not solely on the impact of tariff reductions in the competitive relationship between the two growing areas. Florida's growers were deeply concerned about the impact of increased investment in Mexico's agricultural sector that would occur as a result of the agreement. The overriding fear was that Mexico, with lower labor costs, less costly and restrictive labor and environmental regulations, would entirely overrun the United States market with winter vegetables and other commodities, resulting in severe injury to Florida growers. In the 3 years since NAFTA's implementation, many of these fears have been realized.

Florida's vegetable industry has experienced a substantial increase in competitive prices from Mexican imports since January 1, 1994. Statistical data shows that Florida growers have lost significant ground in the domestic marketplace. Two major causal effects that have contributed to the downturn: First, the implementation of NAFTA; second, the devaluation of the Mexican peso and the severe economic downturn in that country. Less than 1 year following the implementation of the agreement, Mexico entered into the worst economic crisis in decades: The peso devalued significantly against the dollar and continued to devaluate in 1995 and 1996.

Had the industry known in advance that the Mexican currency would be so severely devalued in the 18 months following the implementation of the agreement, its already deep concerns over NAFTA would have been further exacerbated. Had Congress known, it's unlikely the agreement would have been approved.

Other factors to the agreement have also contributed to Florida's industries' decline. Immediately prior to and since the implementation, there has been increased capital investment flowing into the Mexican industry from nontraditional sources. Increased investment in the export-oriented agricultural sector was one of Mexico's main objectives in pursuing the agreement. The changes in Mexico's economies that have come subsequent to the investment have dramatically increased yields, which have increased Mexico's volume and reduced their unit costs. Combining the cost advantage derived from the devaluation of the peso with the gains in productivity, resulting in increased investment, significantly enhanced Mexico's position in the marketplace.

The results have been dramatic increases in Mexican vegetables into the United States since 1994. The impact on Florida's tomato industry has been dramatic. Since the 1992 season, the Florida tomato industry's shipments, crop value, and market share have declined. In 1992 Florida enjoyed a 54-percent market share; in the most recent full season in which statistics are available, market share has declined to 35.1 percent. Meanwhile, Mexico's share in the United States market has increased. It was 28 percent in 1992–93 and has increased to 49.5 percent in 1995–96.

There are basic flaws in the North American Free Trade Agreement that need to be addressed. There were assurances given to this industry, such as phased reductions of tariffs of 5, 10, and 15 years; volume-based special safeguards that were written into the agreement, and emergency provisions based upon section 201 and 202 of the Trade Act of 1974. All of these provisions that were written into the North American Free Trade Agreement have been found to be unaffected by our industry and our attempt to meet the challenges of the North American Free Trade Agreement.

We have had very little success under the 201–202 section of the Trade Act simply because of the seasonality of the industry and that our industry basically represents a segment of the industry, but the U.S. trade loan does not recognize those segments adequately.

The Clinton administration promised the treaty would, in fact, protect the industry. The industry's reality is the fact that we have been seriously injured. We have found no relief in the remedies that were promised to us under the treaty. We are extremely concerned we are going to make our industry one that will be nonexistent because, as it goes broke, the infrastructure is destroyed, and Florida will no longer feed the eastern half of the country in the winter months. We'll be dependent upon a foreign food supply for the fresh fruits and vegetables that Florida is so famous for producing in the winter months.

Thank you for your time.

[The prepared statement follows:]

Statement of Reginald L. Brown, Director, Marketing and Membership, Florida Fruit & Vegetable Association, Orlando, Florida

Mr. Chairman, members of the Committee, my name is Reggie Brown. I am Director of Marketing and Membership for the Florida Fruit & Vegetable Association. FFVA is an organization comprised of growers of vegetables, citrus, sugarcane, tropical fruit and other agricultural commodities in Florida. FFVA appeared before the Committee on numerous occasions during the period leading up to Congressional consideration of the NAFTA. We welcome the opportunity to provide input into the Committee's review of the impact of the North American Free Trade Agreement (NAFTA) on U.S. industries.

Florida's unique geographical location in the United States affords growers an opportunity to provide American consumers with fruits, vegetables and seasonal crops during the months of the year when other domestic producers cannot grow and harvest these crops. Historically, competition for Florida's vegetable industry in the U.S. marketplace has not come from within the United States. Instead, it comes from the State of Sinaloa, Mexico, and other areas that have farm land suitable for winter production in the northern hemisphere.

From the outset, Florida's agricultural industry expressed grave concerns about the potential impact of NAFTA, particularly on the winter vegetable industry. However, Florida was not alone in expressing concern about the agreement prior to its negotiation. Numerous fruit and vegetable producer organizations throughout the nation also believed they would be faced with increased competitive pressure from Mexico.

Florida fears were based not solely on the impact of tariff reductions in the competitive relationship between the two growing areas. Growers also were deeply concerned about the impact of increased investment in Mexico's agricultural sector that would occur as a result of the agreement. The overriding fear was that Mexico, with lower labor costs and less costly and restrictive labor and environmental regulations, would eveities, resulting in severe injury to Florida growers. In the three years since NAFTA's implementation, many of those fears have been realized.

FLORIDA'S VEGETABLE INDUSTRY IN THE POST-NAFTA PERIOD

Florida's vegetable industry has experienced substantially increased competitive pressure from Mexican imports since January 1, 1994. Statistical data show that Florida growers have lost significant ground in the domestic marketplace. Two major causal events have contributed to this downturn: first, the implementation of NAFTA, and second, the devaluation of the Mexican peso and the resulting severe economic downturn in that country.

Less than one year following the implementation of the agreement, Mexico entered into its worst economic crisis in decades. The peso devalued significantly against the dollar late in 1994, and continued to devalue throughout 1995 and 1996. Had the industry known in advance that Mexico's currency would be so severely devalued in the 12 to 18 months following implementation of the agreement, its already deep concerns over NAFTA would have been further exacerbated. Had Congress known, it is unlikely the agreement would have been approved.

Other factors related to the agreement have also contributed to the Florida industry's decline. Immediately prior to, and since, the implementation of the agreement, considerable investment capital has flowed into the Mexican industry from nontraditional sources. Increased investment in the export-oriented agricultural sectors was one of Mexico's main objectives in pursuing the agreement. The changes in Mexico's technology that have come subsequent to this investment have dramatically increased yields, which has both increased Mexico's volume and reduced their per unit costs.

Combining the cost advantage derived from the devaluation of the peso with the gains in productivity resulting from increased investment significantly enhanced Mexico's position in the marketplace. The result has been dramatic increases of Mexican vegetables into the United States since 1994.

The impact on the Florida tomato industry has been the most dramatic. Since the 1992–93 season (the last complete season prior to NAFTA's implementation), Florida's tomato acreage, shipments, crop value, and market share all have declined. In the 1992–93 season, Florida enjoyed a 56.4 market share. In the most recent full season for which statistics are available, market share had declined to 35.1 percent. Meanwhile, Mexico's share of the U.S. market has increased. It was 28 percent in the 1992–93 season, and increased to a 49.5 percent share in 1995–96.[1] Mexico's sales of tomatoes below fair market value during that period had a serious impact on Florida's position in the marketplace. The Mexican industry's predatory marketing practices prompted the filing of an antidumping petition by the domestic tomato industry in March, 1996. The Department of Commerce's investigation found sales at below fair value during the period of the investigation and established preliminary dumping margins at 17.56 percent.[2] A suspension agreement establishing a floor price for Mexican tomatoes was reached between the Department of Commerce and the Mexican industry in October, 1996, and is currently in place.

Other Florida commodities have been affected, as well. Mexican shipments of bell peppers, cucumbers, squash, eggplant, beans and sweet corn increased substantially during the period, particularly in the 1995–96 season.[3]

Considerations During NAFTA's Negotiation

During the NAFTA negotiating period, Florida argued for special consideration in the agreement due to its unique competitive position vis-a-vis Mexico. With the precedents set by previous trade agreements (U.S./Israel Free Trade Agreement and U.S./Canada Free Trade Agreement), Florida requested that its highly sensitive winter vegetable and citrus industries be afforded maximum protection—ideally, exemption from the tariff reductions in the NAFTA.

The industry also requested that, if tariffs were to be reduced in the agreement, a special safeguard mechanism based on price be included for sensitive products. The request for a price-driven safeguard was also made by virtually every fruit and vegetable producer organization in the country. A price-based tariff snapback mechanism was contained in the U.S./Canada Free Trade Agreement (CUSTA). It has been utilized sparingly by the United States since the implementation of the CUSTA, primarily due to logistical problems. The Canadians have used it on numerous occasions, however. The industry recommended that a similar, but enhanced, safeguard be developed for the NAFTA.

FFVA and other fruit and vegetable organizations throughout the country also requested that a strong sanitary and phytosanitary agreement be negotiated as part of the agreement. The industry argued that scientifically unjustified plant quarantine barriers should not be tolerated, and that an effective dispute settlement mechanism should be put in place to resolve disagreements in this area.

NAFTA's Provisions and Commitments

The NAFTA was approved by Congress with the expectation that sensitive industries like Florida's fruit and vegetable sector would be afforded adequate safeguards. The agreement itself contained three main mitigating measures: 1) phased reduction of tariffs over a zero, five, 10 or 15 year period, 2) a volume-based special safeguard on a limited number of products, and 3) emergency action provisions based on Section 201/202 of the Trade Act of 1974.

Despite their extreme sensitivity, as demonstrated by the post-NAFTA experience, most Florida fruit and vegetable products fell into the five or 10 year tariff phase-out categories. Of Florida's major fruit and vegetable commodities, only frozen concentrated orange juice received the maximum 15 year phase out of tariffs.

NAFTA's special safeguard is a volume-based tariff rate quota mechanism that restores the original most-favored-nation (MFN) tariff on a limited number of products if certain volume targets are reached. The mechanism has been totally ineffective as a safeguard, as we predicted before the agreement was finalized. Because the safeguard mechanism is activated only after a generous quota level is reached, MFN tariffs are restored only after the increased volume on the market has already depressed prices and injured domestic growers.

The agreement also contemplated that existing trade remedies, such as Section 201/202 of the Trade Act of 1974, would provide temporary adjustment relief to industries seriously injured by increased imports caused by the reduction and/or elimination of trade barriers. The NAFTA implementing legislation reinforced this by requiring the ITC to monitor the impact of trade in the domestic tomato and bell pepper industries for 15 years after enactment. Conceptually, this was supposed to ex-

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[1] *Competitive Growing Season Shipments, Annual Change and U.S. Market Share,* Florida Department of Agricultural and Consumer Services, November 5, 1996.

[2] *Notice of Preliminary Determination of Sales at Less Than Fair Value and Postponement of Final Determination: Fresh Tomatoes From Mexico,* Federal Register, Department of Commerce, November 1, 1996.

[3] *Competitive Growing Season Shipments, Annual Change and U.S. Market Share,* Florida Department of Agriculture and Consumer Services, November 5, 1996.

pedite the filing of an import relief action should these industries find themselves in jeopardy. In application, however, Section 201/202 and the monitoring provision of the implementing legislation has not provided relief to the domestic industry. Florida's vegetable industry has made two extremely expensive attempts at seeking relief under these provisions to no avail. U.S. trade laws do not account for the unique seasonal and perishable nature of fresh fruit and vegetable production. As a result , it has been impossible for the ITC to find serious injury to seasonal agricultural industries.

Outside of the agreement itself and the implementing legislation, several other commitments were made by the Clinton Administration to the Florida agricultural industry in order to secure support for NAFTA. The most well-known of these was a letter sent by the President to Rep. Tom Lewis on the day before the NAFTA vote in Congress. It read, in part: "I strongly believe that the volume-based snapback of the existing agreement, coupled with the automatic price monitoring and the expedited import relief procedure which will be the law after NAFTA is passed will provide very effective price and volume discipline. I want you to know that I am personally committed to ensuring that this system is enforceable and effective. It will work to ensure against unfair pricing by importers." [4]

Despite the President's belief and commitment that these provisions would be effective, in practice they have been very ineffective for domestic growers. The inadequacies of NAFTA's safeguard mechanisms, combined with the serious deficiencies in the application of U.S. trade laws, place Florida's import-sensitive fruit and vegetable growers in serious jeopardy as NAFTA's impact continues to unfold.

The agreement's sanitary and phytosanitary (SPS) pact was designed to eliminate the unjustified use of plant quarantine and other similar barriers to trade. It established a framework of rules and disciplines to guide the development, adoption and enforcement of these measures. Despite the industry's optimism for these provisions, the SPS package for the most part has not lived up to expectations. Although recent headway has been made in this area—particularly access to Mexico for Florida citrus—progress has been painstakingly slow since enactment. Mexico has successfully stalled access for many U.S. fruits and vegetables by simply refusing to adopt scientific standards or work plans necessary for access. SPS restrictions are now the barrier of choice by governments like Mexico that would like to keep U.S. products out of their country.

CONCLUSION

With the exception of the predictions coming from the industry itself, virtually all of the pre-NAFTA impact predictions on Florida agriculture grossly underestimated the damage suffered by the industry in a very short time. The U.S. International Trade Commission, in its 1992–1993 investigation into the potential impact of the NAFTA, reported: "A number of Mexican internal factors, such as inadequate transportation infrastructure, long delays at border crossings, and a shortage of truck capacity likely will continue to restrain Mexican vegetable shipments to U.S. markets for the foreseeable future." [5]

Arguably, the only thing that restrained Mexican shipments prior to the enactment of the agreement was a desire on the industry's part not to "upset the apple cart" in advance of the negotiation and Congressional consideration of the agreement. Certainly, there has been little restraint shown since.

Mr. HOUGHTON. Thank you very much, Mr. Brown.

Mr. Hawkins.

STATEMENT OF WAYNE HAWKINS, EXECUTIVE VICE PRESIDENT, FLORIDA TOMATO EXCHANGE, ORLANDO, FLORIDA

Mr. HAWKINS. Thank you, Mr. Chairman. Looks like you've finally gotten to the bottom of the barrel. [Laughter.]

My name is——

Mr. HOUGHTON. Do you mean with me or you? [Laughter.]

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[4] *Correspondence from President Bill Clinton to Representative Tom Lewis,* November 16, 1993.

[5] *Potential Impact on the U.S. Economy and Selected Industries of the North American Free Trade Agreement,* International Trade Commission, January, 1993.

Mr. HAWKINS. Me. I'm used to this. I testified about NAFTA before the ITC just recently, and I was the last witness there, too.

My name is Wayne Hawkins. I am executive vice president of the Florida Tomato Exchange, a nonprofit, cooperative agricultural association whose membership produces about 90 percent of the volume of fresh tomatoes from Florida each year. I submitted copies of my statement, as required, and respectfully request that it be made a part of this record.

I have been involved in the so-called Florida-Mexico tomato war for about 30 years. I have watched numerous laws passed by the U.S. Government that regulated Florida tomatogrowers but exempted Mexican imports. Even worse are the laws on the books designed to regulate the product of both countries, but Mexican imports are exempted at the whims of the bureaucrats who totally ignore the intent of the law.

The last straw, and the one that really broke the back of the Florida tomato industry, was the passage of NAFTA. I testified before numerous Committees in Washington, DC, and told them what would happen to Florida's perishable agricultural industry if this legislation passed. I was wrong; it's 10 times worse than I predicted, and happened much faster than I anticipated.

The Florida tomato industry was promised by the President of the United States that they would be protected, but, unfortunately, the promises made were not kept, and the industry has suffered hundreds of millions of dollars of losses as a result. Thousands of workers have been displaced. The farmgate value for tomatoes dropped from $643 million in 1991–92 to $370 million in 1995–96. This is a reduction of nearly 43 percent in only 5 years. During the same period, imports of Mexican tomatoes to the United States during Florida's season, November through mid-June, have increased 284 percent, with many of them sold all over the United States at prices that did not return their own cost of production.

Prior to any negotiations on NAFTA, the U.S. International Trade Commission found that the winter vegetable industry was in direct competition with Mexico, and that it would be negatively impacted should NAFTA be adopted. In response, our trade negotiators adopted several safeguard provisions to assist our industry. They failed miserably.

Efforts to obtain relief from unfair Mexican competition were filed by the Florida tomato industry under sections 201 and 202 of the trade laws of 1974 and under provisions of the antidumping laws of the United States. Evidence presented to the ITC in the section 201 and 202 cases in 1995 and 1996 documented 24 packing houses and more than 100 tomatogrowers that had gone out of business.

The ITC accepted these facts, but four of the five voting Commissioners still voted that the evidence did not support the premise that Mexican imports were a substantial cause of injury, or threat thereof, to the domestic industries producing tomatoes in the United States. I would like to know what the term "substantial cause" and "threat thereof" mean. I requested a definition from the ITC, but never received a response.

The one Commissioner who voted in Florida's favor stated, "In my view, by making a negative determination in these investigations, the commission majority has set a standard for obtaining relief under section 201 that is virtually impossible to satisfy.''

The U.S. Commerce Department issued a preliminary finding under the antidumping case that indicated Mexico had dumped tomatoes into the United States at less than fair value. Following a recommendation by the Commerce Department, the Florida tomato industry agreed to accept the terms established under a suspension agreement between Mexican tomatogrowers and the Commerce Department that established a floor price on tomatoes imported from Mexico. This appeared to be a solution to the problem and worked quite well in the beginning. Changes in the terms of enforcement of the suspension agreement by the Commerce Department months after it was approved have and will undoubtedly continue to weaken the final results. This again points out that the safeguard provisions under NAFTA and our other trade laws do not work for perishable agricultural commodities.

We lost before the ITC because they refused to accept the fact that Florida tomato production was a seasonal industry. We tried to change the law so Florida would be recognized as a seasonal industry. That change came to this Committee. In April 1996, I, along with many others, testified before you. To my knowledge, you never voted on it. It died—just like many other requests from this Committee over the past 30 years.

Do you know what's absurd? The Commerce Department right now is trying to change the suspension agreement with Mexico to provide the Mexicans relief because of seasonality. The law hasn't been changed, but Commerce will prevail, I'm sure, because Mexico is asking for relief, and not a group of United States farmers.

In 1974 when I became manager of the Florida Tomato Committee, there were 475 tomatogrowers on my mailing list. In 1991 there were 230, and today there are less than 75. Drops in numbers of producers for each of the other winter vegetables are similar. This clearly shows what NAFTA has done for Florida agriculture. It looks like it will be the kiss of death for Florida vegetable production.

According to Department of Commerce figures, the U.S. trade deficit has worsened in each year of NAFTA. The trade deficit has gone from an estimated $84.5 billion in 1992 to $166 billion in 1996. Exports to Mexico from the United States have risen from $41 billion in 1993 to $56 billion in 1996. However, imports from Mexico have risen from $40 billion in 1994 to $72 billion in 1996. This has created an enormous trade deficit with Mexico which was not present prior to NAFTA.

For the 3 years before the agreement went into effect, the United States trade balance with Mexico was a surplus of between $1 and $5 billion. Since NAFTA has been in effect, the balance has degraded from a surplus of $1.3 billion in 1994 to deficits in 1995 and 1996 of $15.3 and $16.2 billion, respectively. The United States trade deficit with Canada in 1996 was $22.8 billion.

An important lesson can be learned from studying the results of only 3 years of NAFTA: It may work for some industries, but overall it has been a disaster for U.S. trade. If continued and expanded as it's presently planned, it could be the start of hard times for many U.S. citizens. Good-paying jobs will be replaced by minimum wage jobs, and the standard of living in the good old U.S.A. will be lowered.

Before considering fast track approval of more NAFTA trade agreements, let's fix the one we now have or get rid of it. Why legislate the end of important industries like the Florida tomato industry and displace thousands of workers? Maybe if more legislators had to meet payrolls each week, it would place a different perspective on this situation.

Thank you, Mr. Chairman, for allowing me to testify.

[The prepared statement follows:]

Statement of Wayne Hawkins, Executive Vice President, Florida Tomato Exchange, Orlando, Florida

INTRODUCTION

The Florida Tomato Exchange is a non-profit cooperative, agricultural trade association whose members ship about 90% of the volume of fresh market tomatoes from Florida each year. In 1974, there were approximately 475 tomato growers. In 1990–91, there were about 230; today there are fewer than 75.

SUMMARY OF POSITION

Since the beginning of NAFTA, less than 4 years ago, the Florida Tomato Industry has lost in excess of $750 Million. These losses and the loss of thousands of jobs are a direct result of the NAFTA trade liberalization, the demonstrated inadequacies of the specific safeguard provisions for tomatoes in NAFTA, and the proven unfair trade practices of the Mexican tomato producers and exporters.

The Florida tomato Industry invoked each safeguard provision in NAFTA and its implementing legislation; none worked.

Notwithstanding this, two Federal agencies separately found that Florida's tomato growers and their workers suffered harm as a result of NAFTA and the unfair trade practices of the Mexican tomato producer/exporters. There is no credible evidence that any other event or trend independent of NAFTA was a factor, much less a major factor in the injury to this Industry. While the unilateral, arbitrary peso devaluation by the Mexican government in December 1994, less than a year into NAFTA, exacerbated the harm to the Florida Tomato Industry, the principal cause of the substantial injury to this Industry was NAFTA and its ineffective safeguard provisions.

DISCUSSION

Almost 4 years ago to the day (September 23, 1993), I submitted a statement to this Committee predicting, if NAFTA was approved with the safeguard provisions that it contained for tomatoes, that "tomato growers, their families, their workers, their community and those whose livelihoods depend on them will be seriously harmed." Most sadly, I was right. Our industry has been greatly injured by NAFTA, and the provisions of NAFTA ratified by this Committee have, by not working, directly contributed to this harm. We ask that you fix these provisions (identified and discussed below). You will not diminish in any way your support for free trade. In doing so, you simply will be living up to your responsibilities as members of Congress and your implicit agreement with these growers.

The injury to the Florida tomato industry cannot be disputed: the farm-gate value for tomatoes from 1991–92 to 1995–96 was $643, $569, $428, $388 and $370 million. This is a reduction of nearly 43% in only 5 years. During the same period, imports of tomatoes from Mexico, which compete directly with Florida's season, have increased 284% with many sales below the cost of production and many sales without buyers at the time of import (consignments). Since NAFTA began in January 1994, our industry has lost more than $750 million. Since NAFTA began, this industry has filed several 201 and 202 cases under the Trade Laws of 1974, one dumping case, met with USTR, and ITC officials to discuss implementation of the Monitoring of Imports and the Tariff Rate Quota (TRQ) safeguard provisions. The Monitoring provisions have ceased to be implemented primarily because there was no monitoring of imports taking place. The TRQ provision (in addition to be adopted over the industry's objections and using data we still believe to be clearly erroneous) was also of little or no assistance since its implementation was at least several weeks (10 business days) after a shipment enter the United States and, therefore, had no impact on the domestic market price.

Workers for Regency Packing Co. in Naples, Florida sought Trade Adjustment Assistance (TAA) from the United States Department of Labor as a result of NAFTA and increased imports from Mexico. The Labor Department agreed with their claim under NAFTA and certified almost 1,000 workers. Unfortunately, such retraining was not useful and, therefore, workers who lost their jobs after this did not seek help from the Labor Department under its TAA program.

With regard to the 201 and 202 cases from which "special" provisional relief was promised, and provided specifically, to the Florida tomato and pepper industries, as noted above, the industry was unsuccessful in most part because the ITC did not recognize the winter tomato industry as a separate, distinct industry. It is a fact that Congress provided this relief to the Florida *winter* tomato industry—the only industry in the country threatened with harm from increased tomato imports from Mexico. Because the ITC did not recognize this industry, in April 1996 this Exchange returned to Congress and this very Committee to rectify the mistake that was made. The Executive Branch supported this change, the USTR General Counsel testified before this Committee, the Senate unanimously agreed to fix this issue. This Committee never even voted on our requests. In my opinion, this Committee is honor-bound to fulfill its promise to this industry by supporting the safeguards promised and intended in NAFTA.

PRESIDENT'S REPORT

The President notes in his Report on the Economic Effects of the NAFTA (July 1997) that the impact of NAFTA has been "positive," but he does not explain the huge trade deficit since NAFTA began or its impact on trade, labor, etc. However, the President acknowledges that NAFTA's short-run effects are "transitory" and it is difficult or "challenging" to analyze the impact of NAFTA and there is "only three years of data to analyze." Further, the President notes that NAFTA's most important effects are not easily quantified or observed, and the full effects of the Agreement will take many more years to make themselves known (p. 13). However, three and a half years of experience under NAFTA is time enough to make some assessments. In fact, the Administrator of the Foreign Agricultural Service, USDA, August Schumacher, in a statement before the House Agriculture Committee Subcommittee on General Farm Commodities, on April 17, 1997 noted "[i]t is time enough to judge whether promises made [under NAFTA] are promises being kept." I agree. The short, but strongly justified answer, is that the promises made to the tomato and winter vegetable growers by the Executive and Legislative Branches in NAFTA have not been kept.

With regard to sector findings, the President notes that imports from Mexico grew from $2.7 billion to $3.8 billion in 1996, a gain of 41%, and, the largest increase was in fresh and processed tomatoes, other vegetables, and peanuts. In a footnote (66), the President states that "[t]omato trade was not significantly affected by NAFTA" and that "[t]ariff reductions on U.S. imports of winter tomatoes from Mexico have been very small to date" . . . and "[t]he peso crisis, technological shifts in tomato production, and unusual weather in Florida were the major factors affecting U.S. tomato imports."

We respectfully disagree with the President. Thousands of jobs lost and revenues lost in excess of $750 million is significant, and NAFTA caused these losses.

The unsupported conclusions in the President's Report apparently were taken from the June 1997 ITC Report (Inv. No. 332–381, Pub. No. 3045), The Import of the North American Free Trade Agreement on the U.S. Economy and Industries: A Three Year Review. It is important to note several things about this Report. First, the ITC began its investigation in late April 1997, with hearings on May 15 and 16 and the final report transmitted to the U.S. Trade Representative in June 1997 so that it could be used in the President's Report. To characterize this investigation as an in-depth, comprehensive study that should be relied upon clearly ignores the abbreviated time frame for this "comprehensive" study and, more importantly, ITC itself cautions that "[n]othing in this report should be construed to indicate how the Commission would find in an investigation . . . covering the same or similar matter."

I testified before this ITC Hearing and specifically asked the Commissioners if the Florida Tomato Industry was the "sacrificial lamb" for NAFTA. I was astounded when the answer was—"apparently yes!"

In summary, the President is saying that despite difficulties in determining the short-term impact of NAFTA, the impact has been positive for the U.S. and for agriculture, that NAFTA is working, and that the substantial (and unprecedented) increases in exports of tomatoes from Mexico to the U.S. were not caused by NAFTA, but were due to other factors such as the peso devaluating, bad weather in Florida, and (unexplained) technological shifts in tomato production.

If any part of these claims was substantiated, the President's own Department of Labor would have concluded that the almost 1,000 workers at Regency Packing in Naples, Florida did not lose their jobs because of NAFTA. But, the Labor Department followed the law and *found* that NAFTA caused the loss of these jobs. Words to the contrary do not change this material fact. Of course, since then, thousands of additional tomato workers and farmers have lost their jobs and gone out of business. Don't take our word, check with the Commissioner of Agriculture, State of Florida. Even the ITC in one of its famous Section 202 decisions against Florida tomato growers stated that evidence showed that more than 100 tomato farmers in Florida and twenty-four packing houses had gone out of business since NAFTA was implemented.

More importantly, the President's own Department of Commerce last fall found that Mexican producers were dumping tomatoes into the United States market. Dumping margins ranged from 4.16% to 188.45%. Again, this material fact clearly disproves the unsubstantiated claims that tomato trade was not significantly affected by NAFTA. The "other" causes of increased imports from Mexico were at best minor or secondary factors compared to proven dumping. The other causes affecting United States imports of tomatoes such as unusual weather are true red herrings. For example, assuming Florida had unusual weather which devastated the tomato crops making it a major factor increasing imports is simply not true. First, since NAFTA began, Florida has not experienced any unusual weather in its tomato production. Second, Florida has many production areas which are capable of expanding their production areas relatively quickly, and since the beginning of NAFTA, there was not one freeze that destroyed or substantially reduced the tomato crop in Florida. Moreover, even with freezes, because of the nature of the crop, growers can replant and produce a crop in a very short time. Lastly, consumption records will show that demand for tomatoes did not increase to warrant the acknowledged substantial increases in imports. It is these material facts and the findings of two Federal agencies that must be controlling, not suggestions of "technological shifts in tomato production," whatever that means.

TEST

Agriculture Secretary Glickman, obviously a strong supporter of NAFTA, in remarks made on May 5, 1997, to an Agriculture Working Group of the United States-Mexican Binational Commission in Mexico City got it right when he said our obligation is to make sure our markets are open which requires our government to "undertake trade policy actions to break down the import barriers and insure a fair and level playing field for our agricultural sectors."

The Florida Tomato Exchange supports free trade and seeks only fulfillment of Secretary Glickman's assurances of a fair and level playing field for tomato growers. We ask only that the promises made to us in 1993 by Congress and the Executive Branch as memorialized in NAFTA, in its implementing legislation, and in a letter from President Clinton to Congressman Tom Lewis (described below) be honored. In this letter dated November 16, 1993, the President said, "I strongly believe that the volume-based snapback of the existing agreement, coupled with the automatic price monitoring and the expedited import relief procedure . . . will provide very effective price and volume discipline." The President continued saying, "I am personally committed to ensuring that this system is enforceable and effective. It will work to ensure against unfair pricing by importers." And, the President said, "I am committed to take the necessary steps to ensure that the USTR and the ITC take prompt and effective action to protect the U.S. vegetable industry against price based surges from Mexico." Unfortunately, these promises and commitments have not been kept. We do not have a fair and level playing field for tomatoes. Instead of supporting CBI parity, we believe this Committee should first assure parity for our growers with the Mexican growers.

PRE-NAFTA

Prior to NAFTA, many reports acknowledged that U.S. producers of tomatoes would "face additional competition" as a result of NAFTA. (CBO study: July 1993, A Budgetary and Economic Analysis of the North American Free Trade Agreement (p. xvi). This same report notes that because of this increased competition, NAFTA would include special safeguard provisions for sensitive crops like tomatoes (*Id*. at 70). Other studies noted that the government (ITC) reported that U.S. producers of horticultural products "are expected to experience losses in production, particularly growers in Florida . . . who compete directly with products during the same growing season in Mexico." United States-Mexico Free Trade and Florida Agriculture, Messina and Clouser, Editors, Staff Paper, Food Resource and Economic Department, Institute of Food and Agricultural Sciences, University of Florida, undated, p. 3.

The Congressional Research Service in its Report to Congress dated September 21, 1992, noted Mexico's exports to the United States of fruits and vegetables would expand under NAFTA and that U.S. producers of tomatoes will face greater competition. And, the February 1991 ITC study on the potential impact of NAFTA noted that the lowering of barriers will likely result in a significant increase in U.S. imports of horticultural products including specifically winter tomatoes. Lastly, a 1993 Loyola Law Review* article, The North American Free Trade Agreement (NAFTA) and the Agricultural Sector, noted at page 83 that approximately 1/2 of the winter vegetable imports are comprised of fresh or chilled tomatoes which are direct competitors to U.S. grown vegetables, "particularly those grown in Florida." And, this report concludes that the U.S. grown winter vegetables will be the most affected by NAFTA.

So, prior to NAFTA, the consensus was that winter vegetables, particularly tomatoes grown in Florida were most likely to be affected by the increased imports resulting from NAFTA. The industry predicted it, independent studies predicted it, the Congressional Budget Office and the Congressional Research Office predicted it, and the ITC agreed with this conclusion.

As a direct result of the pre-NAFTA assessment of increased tomato imports and harm to the winter tomato industry, NAFTA's negotiators in the Executive Branch and in Congress deliberately provided special safeguard provisions for winter vegetables, including tomatoes specifically. The safeguard provisions in NAFTA provided for: the elimination of U.S. duties on fresh tomatoes over a 10-year transition period, and a tariff rate quota (TRQ) with the quota amount increasing 3% each year. Ambassador Hills noted that these special safeguard measures for growers of tomatoes and other winter vegetables will "minimize adjustment pressures on growers of these crops" (Letter to Hon. Tom Lewis from Carl Hills, U.S. Trade Representative, Oct. 5, 1992). Subsequently, Congress approved the NAFTA implementation legislation containing additional specific changes to help the winter tomato industry. Congress made changes to Section 201 of the Trade Act of 1974 to allow a domestic producers of tomatoes and peppers to seek "provisional" relief in a "global" 202 case so that the domestic industry could receive prompt relief from the ITC. Also, Congress included Section 316 (19 U.S.C. 3381) in the NAFTA implementing legislation concerning the monitoring of imports of tomatoes and peppers so that the ITC could collect data sooner to respond more quickly in the new provisional relief action described above.

None of these safeguard provisions work as intended. Modifications to Section 201 and the new Section 316 have been tried by the Florida tomato industry and they simply do not work, principally because the ITC does not recognize the existence of a winter vegetable industry. We came back to this Committee to clarify the statutory language as intended by the authors of the legislation and with the support of the negotiators, but met with no success. This Committee never even voted on our requests. Section 316 has been ineffectual since January 1, 1994 and the ITC has abandoned it use.

The TRQ data have been collected by the Customs Service but not in a timely fashion and not in a way that has had any impact on lessening the impact of increased imports of tomatoes. This safeguard may be satisfactory for less perishable agricultural commodities; it is totally unsatisfactory for fresh tomatoes. And, the 10-year phase-out of the already low tariff was effectively eliminated altogether when the Government of Mexico in December 1994 devalued the peso by 40%.

So, the increases in imports of tomatoes were predicted in anticipation of NAFTA, and the harm to the winter vegetable industry, including tomatoes, was predicted in anticipation of NAFTA, and based on those predictions, U.S. negotiators, and later Congress negotiated, drafted, and approved safeguards to prevent the harm that had been predicted as a result of the later Congress negotiated, drafted, and approved safeguards to prevent the harm that had been predicted as a result of the implementation of NAFTA. And, the facts clearly show that the predicted increases happened—in fact, the increases have been much greater than anyone predicted. And, the facts show the predicted injuries to the winter vegetable industry and to tomato farmers in particular happened. And, now the President reports that the predictions of increases and of harm should be disregarded because it wasn't NAFTA that caused harm to Florida's tomatoes growers, it was unusually bad weather in Florida; it was technological shifts, or the peso devaluation; and, Con-

*K. Foster, D. Alexander, Loyola Law Review, Vol. 40, 1994.

gress is reluctant to change the provisions in NAFTA or in its implementing legislation even though the U.S. Trade Representative, whose office negotiated the Agreement says these changes should be made; and, the decisions of the U.S. Department of Labor and the U.S. Department of Commerce concluding increased tomato imports from Mexico under NAFTA caused harm to the growers and workers in this industry are not even mentioned in the President's report and clearly accorded zero weight. This is wrong, very, very wrong.

Florida's farmers know when unusually bad weather occurs; after all, these farmers lived through Hurricane Andrew in the summer of 1992. These farmers can and have replanted when bad weather destroyed their tomato crops, and they do so in a very short time. To say that bad weather was a major factor affecting imports is simply a lie. To say that technological shifts in production was a major factor affecting imports is first of all unclear and unintelligible. But, any technological shift in the industry in the U.S. would have been known to the industry, and there has been none since 1994. Lastly, the peso devaluation was a factor affecting imports but it was not a major factor. The major factor affecting imports was NAFTA and the failure of NAFTA safeguard provisions when the industry tried to use them.

We believe this Committee must look at all the material facts and, where necessary, make changes needed to address the problems identified. Specifically, this Committee must look at the provisionses and fix those provisions that haven't worked as promised. And, certainly this Committee needs to review how NAFTA is working or not working as the case may be.

Based on a USDA Inspector General's report in March 1997, it appears there are substantial and serious problems with the implementation of NAFTA's provisions. More specifically, the report notes that departmental oversight is now needed to ensure completion of NAFTA's commitments and the effective use of the NAFTA Committees on Sanitary and Phytosanitary Measures and the Committee on Agriculture Trade. There appears to have been little action to date to implement NAFTA. If it's not being implemented, then it effectively is not working. If a Dispute Resolution Committee had been in operation in 1994, maybe it could have helped resolve the tomato problem with Mexico.

Specific to fruits and vegetables, the Report notes significant deficiencies with USDA's compliance with inspections, and notes that some required inspections have not happened, and that penalties are not being assessed when violations occur.

Another report is relevant to this Committee's consideration of the effects of NAFTA. Due to the substantial increase in imports of fruits and vegetables primarily from Mexico, the General Accounting Office has estimated that foreign pests are entering the U.S. at a level that is costing $41 billion annually in lost production and expenses for prevention and control (Agricultural Inspection, Improvements Needed to Minimize Threat of Foreign Pests and Diseases, GAO Report, GAO/RCED–97–102, May 1997). Despite changes, inspectors are struggling to keep pace with increased workloads. At some ports of entry, including 6 in the south, no inspections are conducted. Where inspections are performed, often they are done improperly. Some ports are covered by inspectors only part of the time the port is open, and in other ports where traffic is the heaviest, the staff is inspecting less than 0.1% of the traffic. This is not right; this is not a fair or level, playing field. Today, Florida's tomato growers are caught up in a Medfly infestation in central Florida and the identification of a new deadly yellow leaf curl virus due to pests entering the U.S. on imports. Are the U.S. producers the only ones required to abide by the U.S. laws? To argue that imports are meeting the same standards as U.S. grown produce is simply not the case as these reports have found. Moreover, in the President's own Report, he cites as an accomplishment that the deadly pesticides, DDT and chlordane will be phased out in Mexico by 2005. These pesticides have been banned in the United States for some time.

The foregoing is proof that, because of NAFTA and its poor implementation, imports are being treated differently (more favorably from a competitive standpoint) than U.S. commodities. In addition, we have proof that tomato and pepper growers in Mexico this year are not abiding by NAFTA's rules or their own government's laws in their production practices. One of our members commissioned a video of farming practices in Mexico in January and February of this year on tomato and pepper farms. The video documents numerous violations of laws and regulations and is proof that NAFTA's side agreements on labor and the environment are not being enforced at all. This video was shown to the ITC on May 16 at its hearing on NAFTA. The President's report notes that many labor and environmental activities have been initiated or will be taken. Proposals being made, meetings attended, commissions being started are bureaucratic attempts to meet governmental obligations under NAFTA. But such initiatives are an impersonal admission that no (or very few) concrete actions have been take to actually enforce NAFTA. The above-mentioned video documents gross violations of NAFTA which creates a situation, when combined with NAFTA safeguard provisions not working, inspections not being made, and other NAFTA provisions not being implemented, where NAFTA itself is the problem and is causing and will cause additional harm to U.S. farmers and others who must compete with such unfair and apparently sanctioned illegal activities.

CONCLUSION

We have shown that the predictions that NAFTA would increase imports of tomatoes to the U.S. and that the winter vegetable industry would be seriously harmed. We have shown that imports of tomatoes did increase substantially and that the tomato industry in fact has been harmed. We have shown that NAFTA's safeguard provisions and those in its implementing legislation did not work as intended. We have established that the cause of the harm was NAFTA and not bad weather. Most importantly, we have not one but two government agencies to support our conclusions.

Therefore, we think this Committee should find that the tomato growers have been seriously injured by increased imports from Mexico caused by NAFTA, that the NAFTA safeguard provisions haven't worked, and that the implementation of NAFTA and USDA inspections have been unfair to Florida tomato growers and to other domestic industries resulting in an unleveled playing field and that corrective action must be taken.

Quite literally, the fate of our industry is in this Committee's and in this Congress' hands.

Mr. HOUGHTON. Well, thank you, Mr. Hawkins. I think you do very well at the end of the line.

I have a question or two, but I'd like to ask Ms. Thurman if she would like to inquire.

Ms. THURMAN. Mr. Chairman, I appreciate that.

Let me, first of all, thank the entire panel, but let me also thank the two that have come here from Florida, Mr. Brown and Mr. Hawkins, who I have had the opportunity to work with.

Mr. Hawkins, in your communities—we also look at rural development, loss of jobs—what impact, besides your talking about jobs—what's happened to these communities?

Mr. HAWKINS. Well, the agribusiness effect in Florida is about a 5-to-1 ratio. I told you we have lost $750 million in the farmgate price of tomatoes alone. If you multiple that by five, you can see quickly what it's doing to the communities. It's also affecting all the supplier industries, and anyone related with the agricultural deal are definitely being affected.

Ms. THURMAN. Let me ask another question. The seasonality that I've raised a couple of times today, if that were to become law, how do you see that helping?

Mr. HAWKINS. Well, if we could have—we were placed in a position because we were not identified as a seasonal industry; we were placed in a position of claiming injury to the Florida tomato industry for 12 months. Five of those months we had no production whatsoever, and the only figures we had to work with were our own figures. You can see the situation it put us in. Mexico is now importing tomatoes 52 weeks out of the year to the United States. For many years, all they imported to the United States was in the spring season. Now its 52 weeks a year, but it is still heaviest in the spring, and we were trying to compare their figures with ours over just about a 6½-month period, and there's just no way you can come out with figures that are right that way.

Ms. THURMAN. Mr. Brown, since we do vegetables and have some of the same seasonality issues, do you see that as a major issue, an impediment into our trade issue?

Mr. BROWN. It's a major issue, and if you're not able to segment the industry, which is in fact truly seasonal because of market windows and market opportunities and climatic variation in the country, if you are not able to break the industry into its actual parts in order to truly analyze the injury that's occurring to those parts, if you lump the entire industry into one 12-month business, many parts of the country do not compete directly with Mexico, and in fact may not be injured. But our particular industry in the State competes head-on and is being very seriously injured, to the point of hopefully not death, but it certainly is causing wreck and destruction not only in the industry, but in the rural communities.

I had the opportunity of serving as the county agricultural extension director in southwest Florida in the county of Collier for 8 years prior to coming to work for the association. In that period of time, the community of Immokalee was a bustling farm community. It had numerous packing houses. We had up to 15 packing houses operate in that community, employing thousands of people in this industry. Today there are virtually—there's about four of those houses still operating in that area of the State, and the economy of the community of Immokalee is in ruin, simply because of the competitive pressure put upon that economy by the Mexican imports.

Ms. THURMAN. And then let me ask another question, because I think this also goes to the heart of it. On top of this direct competition with Mexico, then under what we thought would be this open trade agreement, there is another issue that has arisen with Mexico from a citrus industry's perspective as far as their ability to be able to trade with Mexico with that product. Is that——

Mr. BROWN. Well, trade is supposed to be a couple of fundamental things. It's supposed to be a two-way deal, and it's supposed to be fundamentally fair, at least in our minds. On the issue of Florida citrus, we have not yet been able to enter a single piece of citrus into the State—or into the country of Mexico because of phytosanitary restrictions that the Mexicans keep throwing out or failing to carry through in that process to successfully enter citrus.

Ms. THURMAN. Let me ask you something very quickly, because this morning the Trade Representative, Ambassador Lang, mentioned there were some negotiations going on. Are you familiar with those? Could you give me an update on that, because I was kind of surprised to hear that?

Mr. BROWN. Well, I'm not totally conversant with the process of the negotiations, but the reality is the citrus has not entered that process, and I guess you can keep things going on forever, but the true proof of the pudding is the entry of citrus into Mexico, and that has not occurred in 3 years.

Ms. THURMAN. Thank you.

Mr. HOUGHTON. Is that it, Ms. Thurman?

Ms. THURMAN. Yes, thanks.

Mr. HOUGHTON. OK. Well, we've just got a few minutes, and I have a basic question. Whenever you deal outside the United States, obviously, people have different labor laws and environmental laws and attitudes, but the question is: 96 percent of the customers of the world are outside this country. How do we get to them without hurting our own base?

Are you really saying things should be different in their countries before we deal with them, or are you saying they really should abide by their own laws? Maybe you'd like to answer that question.

Mr. BECKMAN. Well, I'll take a stab at it. Just as a variety of international rules of conducting trade have been adopted over the last 50 years, in the Uruguay round a number of new areas were covered by international trading rules. In the areas of worker rights and the environment, these are issues that are important to citizensaround the world. They are critical in determining where production takes place and under what circumstances, and who benefits from the wealth generated by that production. These are issues that should be part of the international trading system's rules, and there ought to be international rules that cover these issues, just as there are international rules that cover intellectual property rights and other areas of business conduct.

Mr. HOUGHTON. Can I just interrupt 1 minute? Are you asking people in Mexico to do something more than abide by their own rules?

Mr. BECKMAN. Well, under the—yes, what we're asking is that Mexico agree to its other obligations as well, one of which is to abide by the conventions of the International Labor Organization and the standards that that organization sets for the core labor standards.

Mr. HOUGHTON. So there are two hurdles? One, their own rules, and then that step by the International Labor Organization?

Mr. BECKMAN. Well, their own rules on the face of them comply with the ILO conventions that are included in the generally accepted definition of core labor standards, but the implementation of those rules is different.

Mr. HOUGHTON. OK. Would anybody else like to comment on that?

Mr. HAWKINS. I'd like to comment. We'll compete with anybody in the world. I think we're capable of competing with anybody in the world if they follow the same rules we do. But the rules are not the same. There's one set of rules for Mexico and there's one set of rules for us, and that's what my main argument is. We're going up a hill with both of our feet and one arm tied behind us because of the rules that are placed on us.

Mr. HOUGHTON. Right, but I've been in business for many, many years, and I understand this whole thing. The question is, If people are not going to abide by our rules, that you would like to see their rules come as close as possible to our rules. But the question is, If they set out their own rules, do they abide by those? And that's the issue, I think.

Ms. HOFFMAN. I would add one other. Ninety percent of the consumers may be out of the United States, but 90 percent of the consumer dollars in the world are not. A great many of the consumer dollars are here. And there won't be more consumer dollars elsewhere unless workers in other countries are earning enough that they can become consumers. And with the current regime, that is not the way that is.

Mr. HOUGHTON. I understand that, and that's very helpful.

Let me ask Mr. Hawkins another question. You said that the President sort of reneged on promises he made during the debate on NAFTA. What—give me an example.

Mr. HAWKINS. Based on a letter to the Florida delegation that said if they would change their vote, he would see that the perishable agricultural industry of Florida was protected.

Mr. HOUGHTON. Protected to what extent? Were there any specifics? Was it just a general statement?

Mr. BROWN. May I quote you from that text——

Mr. HOUGHTON. Sure, you bet. Right.

Mr. BROWN [continuing]. From the letter of the President? Quoting: "I strongly believe that the volume-based snapback of the existing agreement, coupled with the automatic price monitoring and the expedited input relief procedures which will be the law after NAFTA is passed, will provide very effective price and volume discipline. I want you to know that I am personally committed to ensuring that this system is enforceable and effective. It will work to ensure against unfair pricing by importers."

Now that's lifted, a portion of that letter sent to Congressman Tom Lewis from the President prior to the passage of NAFTA.

We have had success in an antidumping case on behalf of the tomato industry in the country, not in Florida alone, and found that in fact there was a dumping margin found against the Mexicans of some 17.56 percent. On a national basis, obviously, we're not being very well protected.

Mr. HOUGHTON. Right. Listen, I am terribly sorry; we've got to leave, and rather than hold you up, I think we probably ought to stop this now. But I thank you very much for your contribution. I know I'm going to be reading over all the text again, as I'm sure my other associates will. So thank you very much for coming.

The session is adjourned.

[Whereupon, at 4:31 p.m., the hearing was adjourned, subject to the call of the Chair.]

[Submissions for the record follow:]

Statement of Julio A. de Quesada, President, American Chamber of Commerce of Mexico, Chairman of the Board and Chief Executive Officer, Citibank Mexico, S.A.

My name is Julio A. de Quesada. As the 1997 President of the American Chamber of Commerce of Mexico and Chairman of the Board and CEO at Citibank Mexico, S.A., I respectfully submit this testimony on the North American Free Trade Agreement to the Subcommittee on Trade of the Committee on Ways and Means of the U.S. House of Representatives.

American Chamber of Commerce of Mexico is the largest American Chamber of Commerce outside of the United States. The Chamber represents 2,700 companies which constitute approximately 85% of all U.S. direct investment in Mexico. We were actively involved, both as an institution and as individual companies, in NAFTAs passage.

NAFTAs success, after only three years, is beyond that which even we expected. Most importantly:

- NAFTA has increased trade;
- NAFTA has increased investment;
- NAFTA has established mechanisms to resolve trade disputes; and
- NAFTA has helped to create a more competitive North American product.

During April and May of 1997, we conducted a survey among 1,100 of our member companies (importers, exporters, manufacturers, and maquiladoras). The results of this survey highlight these NAFTA accomplishments.

NAFTA HAS INCREASED TRADE

One of the primary goals of NAFTA was to increase trade, thereby facilitating the flow of goods and services across all borders. NAFTA has been an indisputable success in this area. Trade in 1993, the year before NAFTA, totaled $82 billion between Mexico and the United States. Since NAFTA was implemented on January 1, 1994, trade has increased 58% to reach $140 billion.

Why is this increased trade under NAFTA so important?

1) Canada and Mexico are now the two most important markets for U.S. exports. In April of this year, the U.S. Department of Commerce announced that exports to Mexico surpassed those to Japan for the first time and are second only to those destined for Canada.

2) Second, contrary to popular belief, U.S. industry and U.S. workers have benefited from increased trade. Mexican imports of U.S. products have increased 28% since NAFTA began. ($41 billion in 1993 vs. $57 billion in 1996). More U.S. exports represent more U.S. jobs and according to public statistics, these jobs pay more than non-export jobs.

3) Furthermore, increased trade under NAFTA has left no one out of the game. Companies of all sizes are reaping the benefits, on both sides of the border. In our survey, we found that the number of small and medium sized companies involved in import/export relationships has grown exponentially.

Following are some specific examples:

- Lentes Sola, S.A. de C.V., a small U.S. company operating in Mexico with total sales of approximately $4.5 million, distributes plastic and crystal optical lenses. With the 15% reduction in tariffs under NAFTA, the company has seen imports from the U.S. skyrocket 210%.
- John Deere, on the other hand, is a large U.S. owned company with sales of nearly $165 million. Between 1993 and 1996, imports from the U.S. increased more than 80%. This growth was driven by the fact that NAFTA allowed the company to begin production of a new product line in Mexico: industrial machinery. Nearly all of the component parts used to produce this machinery originate from their plants throughout the United States.

NAFTA HAS INCREASED INVESTMENT

Trade is only one perspective on NAFTAs success. Mexico attracted $31.5 billion in direct foreign investment between 1994 and 1996, second only to China in terms of emerging markets. According to the World Bank and the Secretariat of Commerce and Industrial Development in Mexico (SECOFI), the United States alone invested $17.6 billion, or 55.7% of that total. Ironically, as large as this investment may appear, it represents but a small percent of total U.S. capital investment in any given year.

Nonetheless, we have found that these investments in Mexico do benefit U.S. industry and U.S. workers. Hewlett Packard is an excellent example. Under NAFTA, the company has increased investment in its Mexican operations. Yet, 50% of the component parts used in the companys computers are manufactured in the U.S. Thus, growth in the Mexican operations means growth for the U.S. operations. In fact, Hewlett Packards intracompany exports to Mexico are up four times since 1994.

NAFTA HAS DEVELOPED A MECHANISM TO RESOLVE TRADE DISPUTES

Equally important, NAFTA has played an important role in increasing trade because it has established a framework for managing this $140 billion trading relationship.

Many critics point to the list of pending trade disputes and say that the dispute resolution process is still evolving. However, this approach overlooks the fact that more trade disputes are a natural result of increased trade. Furthermore, the list of disputes that have actually been solved within the NAFTA framework is impressive. Cement, corn brooms, steel and tomatoes are issues that have been resolved with the treatys clarification of the process for dispute resolution. Many other trade issues remain pending; but this is a normal consequence of any trade agreement, especially one between neighbors.

American Chamber/Mexico has over ten committees whose monthly agendas deal with these types of issues, from package labeli-border legal and administrative matters to environmental standards. Dispute resolution is an on-going and concerted effort, and the Chamber is committed as a working resource.

The fourth and most important point is that *NAFTA has helped to create a more competitive North American product which is successfully competing in worldwide markets.*

Texel, S.A. de C.V.

Texel, S.A. de C.V. provides an example of this objective. Texel is a textiles manufacturing company with annual sales of approximately $75 million. Its ownership is both American and Mexican, and it is a publicly traded company.

The process by which Texel has developed a more competitive North American product is simple. The company imports raw materials from New York, North Carolina and Houston into Mexico to produce yarns which are exported back to the United States. From there, the yarns are processed into fabrics and shipped out of American and Mexican factories as home furnishings and automobile products to the Middle East, Australia, South America and increasingly to more and more countries of the world.

Under NAFTA, Texels component sales parts have grown. Imports have leapt 67% from almost $12 million in 1992 to $20 million in 1996. This de facto means more U.S. jobs. From Mexico, worldwide exports have increased from $10 million in 1993 to $34 million in 1996. But, most importantly, Texel estimates that the combined North American product, with final products bringing together the comparative advantages of U.S. and Mexican products, has contributed over $30 million in new U.S. exports destined for other non-NAFTA markets.

Oneida Mexicana

Oneida Mexicana, a 100% U.S.-owned company that manufactures stainless steel flatware, plastic handle flatware and kitchen cutlery, and distributes china, flatware and hollowware (tea sets, ice buckets, etc.), provides another important example.

Because of changes in tariffs under NAFTA, Oneida has optimized production in its U.S., Canadian, and Mexican plants. No factories have been closed in the process; rather, production has been shifted among the three countries. U.S. plants produce high quality products with high volumes and Canadian plants produce high quality products with low volumes. In Mexico, lower-priced products, such as stainless steel flatware, are produced in high volumes.

This optimization, possible because of NAFTA, has had tremendous benefits for the company. First of all, total trade between the U.S. and Mexico increased 36% between 1993 and 1996. Exports from the U.S. to Mexico alone have increased by $1 million.

NAFTA has also improved Oneidas ability to compete with both Asian and European companies. The lower-end products produced in Mexico better compete with Asian products because of the 20% break on duties. U.S. products are at a significant advantage over European products in the high-end market, also due to the elimination of duties. Thus, Oneida, like Texel, is creating synergies across the North American market and thereby developing a more competitive North American product.

It is important to note that our member companies have also made conditions better for workers and the environment along the way. In our survey of American

Chamber/Mexico members, 57.1% of the respondents have invested in new technology to improve their environmental records. With respect to industrial safety, 52.7% of the companies surveyed have instituted new industrial hygiene and safety measures since 1994.

CASE STUDIES

Before closing, I would like to mention that we have collected a number of specific examples from small, medium and large companies who have benefited tremendously as a result of NAFTA. I will highlight just a few of examples of companies who have experienced NAFTAs benefits first-hand in areas as diverse as trade, investment, trade dispute resolution, labor, agriculture, the environment, and intellectual property rights.

Controladora Mabe, S.A. de C.V.

Controladora Mabe is a U.S.-and Mexican-owned company which manufactures, imports, and exports home appliances.

The company credits NAFTA with easing the process of establishing a joint venture with General Electric. As a result of NAFTA, the companys imports to Mexico from the U.S. have grown 40% since 1993, from $185 million to $260 million in 1996. All raw and semi-processed materials are purchased directly from U.S. companies.

Controladora Mabe has always been environmentally conscious, but with NAFTA, an even greater emphasis has been placed on this area. The purchase of new steel and aluminum furnaces and foundries has contributed to important savings in energy. To reduce pollution, the company has begun using solid paint, and as of August 1997, the company will eliminate production of refrigerators with CFCs.

Case Mexico, S.A.

Case Mexico, S.A. is a manufacturer of construction, industrial and agricultural equipment. It was previously 70% Mexican owned and 30% French owned, but is now 100% U.S. owned. Since being acquired by U.S. interests five years ago, the company has seen increased activity and success due to NAFTA.

One positive result of NAFTA has been the lowering of tariffs from 15% to 0% on agricultural tractors exported from the U.S. to Mexico. This lower tariff has provided Case Mexico with a competitive advantage over its non-NAFTA competitors. The company has also benefited from tariff reductions on construction equipment and spare parts.

In a recent product rationalization decision, Case decided to close a German tractor plant and move production to the U.S. and England. Taking advantage of the NAFTA opportunity for exports to Mexico, the company has designed a tractor which will have a high level of U.S. content and be introduced into the Mexican market. For shareholders, it means the additional sales of several million dollars per year in tractors, implements, and spare parts from the U.S.

William J. Meyers, Managing Director of the company, stated, “In Mexico there is a preference for U.S. goods and a propensity to buy them. NAFTA has helped to facilitate this desire, which is positive for U.S. industry and workers.” He added, “NAFTA helped give us staying power through the crisis because Mexican dealers realized that there would be a future with U.S. products and a U.S. company.”

Cia Hulera Goodyear Oxo, S.A.

Cia Hulera Goodyear Oxo, a $300 million dollar company, has 54 years of experience operating in Mexico. Despite this long-term presence, the company has seen significant positive changes since the implementation of NAFTA.

One of the most important results of NAFTA has been the rising confidence in the Mexican subsidiary on behalf of the management in Akron, Ohio. NAFTA confirmed Mexicos commitment to opening its economy to international trade and investment and to becoming part of the global economy.

Another important result of NAFTA was the positive impact it had on the Mexican labor union. Pre-NAFTA, productivity at the Goodyear Mexico plant was in the lower third of all Goodyear factories worldwide. The union relationship was considered to be among the most challenging in the Goodyear world. Even with GATT, the union was not convinced of the need to become more competitive. However, with the onset of NAFTA and the clear signs of market opening, management and union adopted a new spirit of partnership and trust. Over the past five years production and productivity have grown over 70%. The plant has competitive worldwide costs and exports over 40% of its production, while its workforce ranks among the best paid in Mexico.

Celanese Mexicana, S.A. de C.V.

Celanese Mexicana is part of a world-wide consortium of companies that manufacture and export chemicals, textiles and packaging products. In addition to increased imports from the U.S. due to lower tariffs under NAFTA, the company commends the trade agreement for the clear rules it has established for settling trade disputes. After having had experience with numerous antidumping cases in the chemicals industry throughout the world, Celanese finds the NAFTA mechanisms for solving these problems remarkable.

American Soybean Association in Mexico

The agricultural sector has generated tremendous debate with respect to NAFTA, however, the participants in this sector have been some of the real winners.

First of all, NAFTA has helped to keep the system in place. In 1982, when Mexico experienced a severe devaluation, the U.S.-Mexico border was closed to the flow of agricultural products. However, after the 1994 devaluation, NAFTA helped to keep the borders open.

In the case of soybeans in particular, U.S. exports actually increased between 1995 and 1996. In 1995 U.S. exports of grain to Mexico totaled 6.26 million metric tons and in 1996, they jumped to 10.63 million metric tons. This equals approximately 1 million more acres of productive land in the U.S., a direct benefit for U.S. farmers. In the case of oil seeds, NAFTA also helped to propel a surge in exports between 1995 and 1996. In 1995, 2.1 million metric tons were exported to Mexico and in 1996, 2.7 million metric tons. This resulted in close to 500,000 additional acres of productive land in the U.S.

It is important to note that much of this growth is due to tariff advantages for U.S. farmers under NAFTA. Soybean producers compete with farmers throughout the world, particularly in South America. U.S. farmers are at an advantage because they can export to Mexico six months out of the year, duty free; the other six months, there is a tariff of only 6%. This affords them a significant advantage over South American producers, who face a 10% tariff.

Kenneth Shwedel, Regional Director of the American Soybean Association in Mexico, explains NAFTAs advantages. "The effects of NAFTA can be seen on both a micro and macro level. On the micro level you can now walk into a supermarket and see agricultural products produced in the U.S.A. Lettuce and corn oil are two good examples. On the macro level, NAFTA generated over $9.1 billion of agricultural trade between the U.S. and Mexico in 1996. I did not think we would reach this level until after the year 2000."

Eli Lilly Mexico

Eli Lilly Mexico has had a presence in Mexico for more than 50 years. It exports to 43 countries, and sells pharmaceutical and animal health products in Mexico. Eli Lilly has been certified as an MRPII class A company.

Most importantly for Eli Lilly, llectual property rights, allowing the company to invest in the launch of new products and to become part of the global clinical trials for new compounds. The patent protection requirements in NAFTA are stronger than GATT and implementation is immediate. These improvements in patent laws have resulted in greater exports of raw active ingredients from the U.S. to Mexico for local fill-finish (an important benefit for U.S. industry) and no copied products (for those approved after 1991).

The reduction in duties has led to significant financial savings on imports of raw materials and capital from the U.S. For example, NAFTA was a key factor in 1995 when the company opened its new oral antibiotics facility. Rather than bringing European equipment, Lilly imported U.S. equipment. This meant more jobs for both Americans and Mexicans. Lower tariffs have also led to increased U.S. exports of finished products to Mexico and facilities specialization.

Overall, NAFTA is breaking down trade barriers in recognition of the evolving global economy. Increased trade means the creation of jobs on both sides of the border, less bureaucracy, and less wasted efforts.

CONCLUSIONS

There are clear and well-understood benefits from free trade agreements such as NAFTA. For companies operating in Mexico, U.S. and foreign alike, NAFTA has been a success. Moreover, the evidence is clear that free trade agreements ensure preferential treatment for those countries participating in them. Goodyear Mexico, for example, reports that it imports 700,000 tires a year from three countries, all of which have free trade agreements with Mexico.

Companies with a base in Mexico are already poised to move further south throughout Latin America. Oneida Mexicana sees the growth potential throughout Latin America as one of the most important results of NAFTA. Because of the benefits they have seen from NAFTA, many member companies, which are U.S. enterprises, are looking for ways to grow via Mexicos trade agreements with other countries.

Global interdependence is an irreversible course for multinational businesses. The American Chamber of Commerce of Mexico believes NAFTA can serve as a model for future free trade agreements throughout the hemisphere. It concerns our members that U.S. business may be left behind or shut out at a time when the competitive advantages of U.S. products demonstrate formidable strength, and thereby have distinct opportunities in emerging markets.

The member companies of the American Chamber of Commerce of Mexico have been part of the unfolding of NAFTAs success from its beginning. Our experiences show that NAFTA works, that NAFTA is good for U.S. business, and that the expansion of NAFTA will be good for U.S. industry, U.S. workers and U.S. competitiveness into the 21st century.

Statement of American Textile Manufacturers Institute

This statement is submitted by the American Textile Manufacturers Institute (ATMI), the national association of the textile mill products industry. Collectively, ATMI's members make and market every kind of textile product and account for 80 percent of the textile fibers processed in the United States.

For 40 years the U.S. textile industry's experience in the field of international trade has been marred by an unceasing torrent of imports, much of it unfairly and illegally traded. To add insult to injury, many of the countries responsible for this onslaught have kept their domestic markets sealed tight to U.S. textile and apparel exports. However, in 1992, ATMI's members agreed to support the North American Free Trade Agreement (NAFTA) for several reasons.

Since its inception, NAFTA has proven a welcome contrast to all that went before it. Both on philosophical and practical grounds, NAFTA has been a welcome change to the U.S. textile industry. On philosophical grounds, in ATMI's view, NAFTA embodies and typifies what a trade agreement should be:

- It is balanced, equitable and reciprocal
- It has fair, transparent, enforceable and strict rules of origin
- It has a meaningful safeguard mechanism
- It provides for a high degree of cooperation and enforcement in Customs-related matters

The practical benefits of NAFTA are immediately apparent upon review of the relevant data:

NAFTA Textile & Apparel Trade

[Million $]

	1993	1994	1995	1996	Year Ending June 1997
Textiles:					
Exports to Canada	1,611	1,798	2,035	2,230	2,424
Exports to Mexico	785	964	924	1,179	1,298
Total	2,396	2,762	2,959	3,409	3,722
Imports from Canada	566	728	881	1,047	1,127
Imports from Mexico	245	300	470	670	767
Total	811	1,028	1,351	1,717	1,894
U.S. Balance-Canada	1,045	1,070	1,154	1,183	1,297
U.S. Balance-Mexico	540	664	454	509	531
Total	1,585	1,734	1,608	1,692	1,828
Apparel:					
Exports To Canada	369	430	513	533	575
Exports to Mexico	804	1,096	1,324	1,656	1,896
Total	1,173	1,526	1,837	2,189	2,471
Imports from Canada	454	589	770	948	1,073
Imports from Mexico	1,127	1,597	2,566	3,560	4,264
Total	1,581	2,186	3,336	4,508	5,337

NAFTA Textile & Apparel Trade—Continued

[Million $]

	1993	1994	1995	1996	Year Ending June 1997
U.S. Balance-Canada	(85)	(159)	(257)	(415)	(498)
U.S. Balance-Mexico	(323)	(501)	(1,242)	(1,904)	(2,368)
Total	(408)	(660)	(1,499)	(2,319)	(2,866)

Source: U.S. Department of Commerce

As these data show, from 1993, the year before NAFTA went into effect, until the present, U.S. exports of textiles to our NAFTA partners have increased $1.3 billion or 55 percent. This increase would have been even greater were it not for the financial crisis which resulted in the sharp devaluation of the Mexican peso in 1995. The ill effects of the peso devaluation have been somewhat ameliorated by the ongoing reduction of Mexican import tariffs on U.S. textiles, which has produced modest increases in U.S. exports during 1996 and 1997. Since virtually all Mexican tariffs on U.S. textiles will disappear in 1999 and as the Mexican economy continues its sustained recovery, further gains in U.S. textile exports should be realized next year and beyond. Recent increases in exports of yarns, fabrics and made-up textiles to Mexico provide a clear indication that Mexico's recovery will benefit U.S. textiles.

At the same time, it should be noted that both Mexico and Canada have recorded substantial increases in their textile exports to the United States. The U.S., however, maintains a surplus in its textile trade accounts with its NAFTA partners, one that has grown larger since NAFTA began. In short, all the partner countries have increased their exports of textiles to each other. This is what NAFTA promised and this is what NAFTA delivered to its textile industries.

With respect to trade in apparel, the dollar amounts involved are much larger than in textiles, but require a word of explanation: U.S. "apparel" exports to Mexico are not all finished garments, but consist overwhelmingly of pieces of fabric cut into garment components to be assembled (sewn) in Mexico and returned to the United States; only a small portion of the export total is finished garments. In the case of Canada, the reverse is true.

U.S. apparel (cut pieces) exports to Mexico have increased dramatically since NAFTA went into effect, rising over $1 billion or 136 percent in four short years. This, of course, has helped fuel an even greater increase in Mexico's exports of apparel to the U.S.: up $3.1 billion or 279 percent since pre-NAFTA 1993. Mexico's apparel exports to the United States have fared so well under NAFTA that last year it replaced China as the leading foreign source of imported apparel:

U.S. Imports of Apparel

[Million Square Meters]

	Mexico	China
1993	321	935
1994	482	934
1995	774	862
1996	1,099	862
Year Ending June 1997	1,311	961

Source: U.S. Department of Commerce

Such a large volume of apparel imports from one source, no matter which source, would ordinarily be a source of concern, but thanks to the rules and disciplines embodied in NAFTA, this U.S.-Mexican trade has not damaged the U.S. textile industry. In fact, as alluded to above, it has had the opposite effect because the combination of (1) apparel imported from Mexico using fabric made and cut in the United States, and (2) apparel cut and sewn in Mexico from U.S. fabric exported to Mexico results in over two-thirds of total apparel imports—nearly 900 million square meters worth—from Mexico being made of U.S.-produced fabric.

In terms of textile and apparel trade, our NAFTA-forged relationship with Mexico is truly symbiotic, truly mutually rewarding. This cannot be said for China or the hundred-plus other countries which ship textiles and apparel into our market.

With respect to Canada, apparel trade has also expanded in both directions, but in a way that was perhaps not foreseen. U.S. exports of apparel to Canada, virtually all of which is made with U.S.-produced fabric, grew $206 million or 56 percent from 1993 to the present day, while Canada's exports to the U.S. leaped $619 million or 136 percent. As a result, Canada enjoys a rapidly growing surplus in apparel trade with the United States, one that has now reached one-half billion dollars annually.

One is tempted to ask how Canada, where the costs of making apparel are significantly greater than they are in the United States, can achieve an enormous and growing surplus in apparel trade with the U.S. One obvious answer is that Canada is shipping to a market that is 10 times larger than the one the U.S. is shipping to. But this is offset by the fact that the same holds true for textiles, yet the U.S. has a large surplus in textile trade with Canada.

The real reason for this seeming anomaly is the only flaw, from ATMI's perspective, in the NAFTA agreement, one that was grandfathered from the predecessor U.S.-Canada Free Trade Agreement and enlarged in NAFTA: the Tariff Preference Levels (TPLs) which Canada was granted. TPLs permit the use of non-NAFTA raw materials and components to produce goods eligible for NAFTA (tariff and other) preferences. These egregious violations of NAFTA rules of origin have been skillfully used by Canadian exporters to the detriment of U.S. producers.

Under NAFTA, Canada was granted nearly 85 million square meters worth of TPLs for cotton and man-made fiber apparel (1997 rates) and over 5 million square meters worth for wool apparel. Last year Canada used 40 percent of its cotton and man-made fiber TPLs and 95 percent of its wool TPL to ship 39 million square meters worth of non-conforming apparel—28 percent of its total apparel exports—to the United States, apparel that could have and should have been made with fabric abundantly available in the United States, Canada or Mexico.

Nowhere is the abusive nature of Canada's TPLs more evident (or more damaging) than in the case of men's suits. Thanks to its wool apparel TPL, which was secured by Canadian negotiators essentially on behalf of one company, Canada ships over $130 million worth (current annual rate) of men's wool suits to the United States which do not conform to NAFTA's rules of origin and should not be eligible for NAFTA preferences. This illegitimate trade has seriously damaged U.S. producers of men's suits and suit fabric and resulted in massive job losses. To make matters worse, NAFTA specifically prohibits the taking of any safeguard action with respect to these imports.

This TPL abuse aside, NAFTA has produced significant benefits for the U.S. textile industry, as the data reported above clearly show. NAFTA is responsible for 60 percent of the increase in U.S. textile exports since 1993 as well as 44 percent of the nearly $3 billion increase in apparel exports since 1993. In sum, total and apparel exports to Canada and Mexico (including cut fabric pieces) currently provide employment for 47,000 U.S. textile workers and thousands of others in support and supplier industries.

Looking to the future, the U.S. textile industry has every hope and expectation of building on the successes which NAFTA has already produced, particularly as Mexico continues on the road to full economic recovery. More immediately, the industry sees a clear opportunity to replicate NAFTA's success by extending NAFTA-type benefits to the nations of the Caribbean Basin and Central America. ATMI earnestly hopes the Congress shares this vision and will take the steps necessary to make it a reality.

Statement of American Trucking Associations, Inc.

The American Trucking Associations (ATA) is the national trade association of the U.S. trucking industry. ATA's mission is to serve the united interests of the nine million people and 400,000-plus companies involved in trucking, and to educate public officials at all levels of government about the essential nature of the trucking industry. Established in 1933, the ATA federation is composed of the ATA national organization, 50 state trucking associations and 14 affiliated national conferences and independent organizations. Including state trucking associations, ATA conferences, and other affiliates, the ATA Federation represents more than 34,000 companies.

NAFTA AND TRUCKING

The trucking industry has long supported NAFTA. Therefore, we firmly opposed the delay by the U.S. Government in implementing the essential cross-border trucking provisions of NAFTA. The delay has arbitrarily denied Canada, Mexico and the United States the full benefits of this important trade agreement, negatively impacting U.S. shippers and carriers engaged in NAFTA trade. We urge the U.S. Government to implement NAFTA's trucking provisions without further delay.

NAFTA offers the promise of even more jobs in the trucking industry because it establishes the framework for more trade, the vast majority of which moves by truck. When measured by value, trucks move over 85 percent of U.S.-Mexico trade, and 67 percent of U.S.-Canada trade. Trade data compiled by the U.S. Department of Commerce shows that our bilateral trade with Mexico was up by more than 20 percent in 1996, compared to 1995. U.S. exports to Mexico increased by 22 percent for the same period, while Mexican exports to the U.S. have increased by 18 percent for the year. Statistics for the first half of 1997 show U.S.-Mexico trade up by 18.5 percent compared to the same period last year.

To illustrate how trucking has benefitted from NAFTA's increased trade flows, we present the following examples of trucking companies that have benefited greatly from increased U.S.-Mexico trade:

Celadon Group, a trucking company based in Indianapolis, Indiana, has seen revenues from its U.S.-Mexico operation increase from US$64 million in mid-1995, to $90 million in mid-1996, and revenues reached $102 million by mid-1997, representing an increase of $38 million dollars. Celadon's U.S.-Mexico operations, in the afore-mentioned years, represented about 65 percent of the company's total revenues.

During the same period, Celadon has increased its U.S. truck driver work-force from 750 to 1,150. It has also added about 100 administrative U.S jobs during that time. According to company representatives, these jobs have been largely due to the growth in U.S.-Mexico trade.

Contract Freighters, Inc., based in Joplin, Missouri, has seen its U.S.-Mexico operation revenues increase from US$20 million in 1992 to US$49 million in 1996. When U.S.-Canadian operation revenues are included, cross-border revenues jumped from US$35 million in 1992 to US$64 million in 1996. Of CFI's total revenues, its Mexican and Canadian operations have gone from representing 22.04 percent in 1992 to 27.4 percent in 1996.

Schneider National, Inc., based in Green Bay, Wisconsin, is the largest truckload motor carrier in the United States. Schneider has been very active throughout North America, having started operations in Canada in 1989, and is now the largest truckload company in Canada. Schneider began U.S.-Mexico operations in 1991. According to the carrier, NAFTA's greatest effect on the company was the way it changed the mindset of shippers regarding international trade, especially with Mexico. NAFTA initiated a fundamental change in the way shippers viewed new opportunities in the marketplace south of the border. From 1991 to 1993, Schneider established and steadily grew its U.S.-Mexico operations. But with the NAFTA negotiations and its eventual implementation, the 1993–1996 period saw an explosion of growth of about 250 percent.

Roadway Express, Inc., based in Akron, Ohio, is a less-than-truckload (consolidated shipment) carrier that has also experienced a recent boom in its north and south bound shipments. For the second half of 1996 and the first quarter of 1997, Roadway has seen a 25 percent rate of growth. The double-digit growth in its North America operations has led Roadway to purchase more equipment and add new U.S. jobs, especially at their distribution terminals.

CROSS-BORDER TRUCKING TODAY

Because the NAFTA trucking provisions have been delayed, trucking companies that have invested in equipment to provide a first rate freight service throughout North America, are left to operate in an outmoded and inadequate freight transfer system at the U.S.-Mexico border. A shipment traveling from the United States to Mexico, or vice-versa, requires no less than three drivers and three tractors to perform a single international freight movement. Through interline partnerships, freight is handled on the U.S. side by a U.S. carrier and on the Mexican side by a Mexican carrier with a "middleman" or drayage hauler in the middle. The drayage driver ferries loads back and forth across the border to warehouses or freight yards for pickup or subsequent final delivery.

Congestion is compounded because trailers come back empty after delivering their freight across the border and because drayage "bobtails" (tractors without trailers) deliver a trailer only one-way across the border and return solo.

In addition to requiring two long-haul carriers, one on either side of the border, and a drayage carrier to haul the shipment across the border, the process includes freight forwarders, customs brokers, as well as the official processing handled by government inspectors and enforcement officials. This process results in extra trucks on the road, congestion, delays and "over handling" of shipments that invariably leads to increased costs, and loss and damaged freight.

Furthermore, the existing border infrastructure is seriously overburdened by the increased congestion generated by the growth in trade flows and the present outmoded cross-border trucking scheme. If, as anticipated, trade flows between Mexico and the United States continue to grow, the border facilities and personnel will only be further strained.

NAFTA TRUCKING PROVISIONS

Under NAFTA, beginning on December 18, 1995, U.S. and Mexican carriers were to have been allowed to pick up and deliver international freight into each other's states contiguous to the U.S.-Mexico border. By January 1, 2000, access would expand to all states on either side of the border. NAFTA's trucking provisions would enhance the competitiveness of U.S. goods in the Mexican market by providing U.S. exporters and importers an efficient cross-border trucking operation.

If implemented, NAFTA's trucking provisions would allow U.S. carriers, by using their own drivers and trucks in Mexico, to reduce shipping times and increase reliability of service. *Opening the border will lead to greater efficiencies, cost and time savings, and will greatly facilitate the flow of commerce across our borders.*

In addition, the trucking provisions would have improved our ability to invest in the Mexican market. U.S. and Canadian investors were to be permitted to invest in up to 49 percent ownership of Mexican trucking companies or terminals providing exclusively international freight services. On January 1, 2001, those investment rights are scheduled to increase to 51 percent, and, on January 1, 2004, the rights expand to 100 percent.

NAFTA TRUCKING DELAYED

The day the border was to open, the U.S. Government unilaterally delayed opening the border, and the U.S. Department of Transportation refused to process applications from Mexican trucking companies.

Announcing the postponement, then Secretary of Transportation Federico Pen cited safety and security concerns regarding Mexican trucks operating in the United States as the reason for the delay. However, all four border governors, who have primary enforcement responsibility for motor carrier operations, have repeatedly affirmed that they are prepared to enforce U.S. truck safety regulations.

NAFTA's trucking provisions require all foreign carriers operating in the United States to abide by U.S. standards and regulations. ATA fully supports rigorous enforcement of all U.S. standards for foreign carriers operating in this country. The current freeze, however, imposes a presumption of guilt based upon national origin: no matter how safe the Mexican trucking company, it cannot get permission to leave the border zone.

Unfortunately, the freeze has perpetuated the current inefficient and congested border crossing procl consumption, idle salaried drivers), and greatly affects delivery schedules for manufacturing and retail operations on both sides of the border. As the agreement continues to increase our bilateral trade with Mexico and Canada, the trucking industry faces greater pressures from shippers to expand just-in-time delivery throughout North America. By providing just-in-time delivery, carriers can significantly reduce shippers' expenses, eliminating expensive warehousing costs and other added expenditures associated with maintaining inventories.

The delay has adversely impacted U.S. shippers and carriers engaged in NAFTA trade. Equipment orders have been postponed, contracts have been put off or cancelled, and the promise of increased operating efficiencies has been indefinitely delayed. Moreover, the border freeze has delayed resolutions to key U.S. trucking concerns in Mexico regarding 53-foot trailer use, small package carrier operations, and U.S. investments.

SUPPORT FOR CROSS-BORDER TRUCKING

The governors of the four southern border states, and their respective state safety enforcement officials, have repeatedly stated that they are fully prepared to enforce safety regulations (see Attachment I). In addition to stepped up enforcement, the Federal Highway Administration (FHWA) and state governments have established effective education and media campaigns directed to carriers, drivers, and brokers, regarding operating requirements in the United States.

In a letter to President Clinton in December 1996, on the anniversary of the moratorium, a diverse and important group of signatories (see Attachment II), made it clear that the border opening delay is an issue that affects not just the trucking industry and the border states, but all those manufacturers in various states that depend on trucking to export their products. The freeze on cross-border trucking affects the overall productivity and competency of NAFTA.

The signatories, who urged an immediate end to the border delay, included:

- American Automobile Manufacturers Association
- American Textile Manufacturers Institute
- American Trucking Associations
- Commercial Vehicle Safety Alliance
- Council of the Americas
- National Association of Manufacturers
- National Foreign Trade Council
- National Industrial Transportation League
- National Private Truck Council
- U.S. Chamber of Commerce
- U.S. Hispanic Chamber of Commerce
- U.S.-Mexico Chamber of Commerce

The Commercial Vehicle Safety Alliance (CVSA), an organization representing motor carrier safety enforcement officials from every state in the United States, as well as Canadian and Mexican members, is playing an important role in training U.S. and Mexican inspectors to inspect trucks crossing the U.S.-Mexico border. CVSA has been instructing Mexican inspectors to apply standards equivalent to those established under the North American Vehicle Inspection Standard, which has been used for some time in Canada and the United States. According to officials from CVSA, "the safety training of Mexican inspectors should ensure that Mexican commercial vehicles which cross the border meet the U.S. safety standards."

Conclusion

The U.S. trucking industry, shippers and the American consumers that we serve have already seen considerable benefits from NAFTA, i.e. job creation, opening of new markets for U.S. goods and services, business expansion opportunities, reduction in tariffs, and increased production efficiencies. Although NAFTA has proven beneficial to U.S. industries and consumers, the U.S. Government's decision to delay cross-border trucking service has unduly penalized not only the transportation industry, but U.S. exporters and importers alike.

Implementation of NAFTA's trucking provisions will eliminate a cumbersome, outdated and costly system of moving freight across the border, and replace it with an efficient, transparent and safe cross-border trucking process.

Once the border is opened, we can begin to recognize the full benefits of NAFTA and increased trade between the United States and Mexico. Then, we can focus our efforts on the many business and practical issues that will arise from the cross-border integration process. Those can only be tackled with the goodwill of committed trading partners.

XIV BORDER GOVERNORS' CONFERENCE
United States - Mexico

December 18, 1996

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

Dear President Clinton:

On behalf of the residents of California, Arizona, New Mexico and Texas, we are writing once again to urge you to uphold the spirit and intent of the North American Free Trade Agreement (NAFTA).

According to the provisions of this agreement to which you are a signatory, trans-border trucking was to have begun one year ago throughout the United States-Mexico border states. Your administration's unilateral delay in implementing this provision has inhibited the economic growth the NAFTA nations had expected to achieve by now. This trans-border trucking delay robs the entire U.S.-Mexico border region of the full economic benefits that NAFTA promises.

This past year has seen a significant increase in the capability and operations of motor carrier safety enforcement. Remarkable levels of cooperation among federal and state regulatory and enforcement agencies have prepared for the opening of our borders. Therefore, we see no reason for any further delay, and urge you to order the full implementation of NAFTA.

Sincerely,

George W. Bush
Governor of the State of Texas

Gary E. Johnson
Governor of the State of New Mexico

Fife Symington
Governor of the State of Arizona

Pete Wilson
Governor of the State of California

December 18, 1996

The Honorable William J. Clinton
President
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear President Clinton:

One year ago today, the Administration announced a freeze on implementing the crossborder trucking provisions of NAFTA. Today, we still face a serious policy logjam. Your leadership is needed to find a fair and swift solution to this vital trade issue.

Mr. President, you courageously supported NAFTA in your first term because you knew it was good for America – good for the economy, good for business, and good for consumers. The NAFTA partnership *is* essential to our nation's future.

The freeze on crossborder trucking is not just a trucking issue. With over 85 percent of U.S.-Mexico trade moving by truck, NAFTA's overall success hinges on efficient crossborder trucking operations. Continued imposition of the freeze has strained our relations with Mexico, stymied resolution of other essential bilateral transportation issues, and denied the United States the benefits of expanded trade.

Like you, we are committed to moving traffic safely on our nation's highways and across our borders. However, the safety argument used to delay the border opening was based upon unsupported claims. Since the delay, state enforcement officials and the governors of the four Southern border states have said they are fully prepared to enforce the nation's safety regulations.

NAFTA promised to bring North American trade into the 21st century. You helped build the bridge that can bring us there. Now we are counting on your leadership to let us cross. Thank you for your help with this important matter.

Sincerely,

Thomas Donohue
President
American Trucking Associations

Edward Emmett
President
National Industrial Transportation League

Philip A. Vasquez
President
Commercial Vehicle Safety Alliance

Albert C. Zapanta
Executive Vice President
U.S.-Mexico Chamber of Commerce

José Niño
President & CEO
U.S. Hispanic Chamber of Commerce

Jerry J. Jasinowski
President
National Association of Manufacturers

Ambassador Everett E. Briggs
President
Council of the Americas

Andrew H. Card, Jr.
President & CEO
American Automobile Manufacturers Association

Gene S. Bergoffen
President & CEO
National Private Truck Council

Carlos Moore
Executive Vice President
American Textile Manufacturers Institute

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

Frank D. Kittredge
President
National Foreign Trade Council

Statement of Border Trade Alliance, San Diego, California

The Border Trade Alliance (BTA) was founded in 1986 and consists of individuals, entities and companies which live and do business along with U.S. Southwest border. The BTA is a long-standing grassroots organization dedicated to facilitating legitimate trade and commerce along the U.S./Mexico border. Over the past decade, our agenda has consistently focused on trade facilitation, NAFTA, fast track, trade expansion, border infrastructure and environmental issues, and industrial and economic development. We have positioned ourselves as a resource for industry and government in addressing these issues, and want to work closely with the leadership in both Washington, D.C. and Mexico City to improve trade and commerce in the Americas.

As such, our members have a unique perspective about life at the Southwest border. Because our members live and work in the region, we have seen the best and the worst of the relationship between the U.S. and Mexico. As such, we know the benefits which have been derived from the North American Free Trade Agreement (NAFTA). NAFTA has brought attention to the U.S. border region in a way that previously was sorely lacking. Unfortunately with that heightened attention has also come those with parochial perspectives whose sole purpose is to advance their political agenda, regardless of whether the information given out is accurate.

INTRODUCTION:

As a group, we recognize the many problems which exist on both sides of the border. But we also recognize the advantages which are derived from the spirit of NAFTA, as well as the agreement itself. Much of the opening of the Mexican market derives from Mexican government officials acting in the spirit of NAFTA, rather than its letter. The dramatic increase in U.S. exports and the hundreds of thousands of direct trade-related jobs are evidence of the heightened economic integration between the U.S. and Mexico. A benefit of this integration is the increased competitiveness the U.S. is enjoying in the global marketplace.

Our challenge to those who contend NAFTA is a bad idea is simple. Rather than destroying NAFTA—an agreement in its infancy that has yet to be fully implemented—let us make it work properly, We should look to realize its potential, not undercut its benefits. If we need to reinvigorate adjustment assistance for U.S. industry and business or training programs for displaced workers, we should do so. If we need the NADBank and the BECC to become more active, we should press for these things to happen. If we are concerned about labor issues in Mexico, the labor side agreement should be made to work more effectively. If there are environmental issues of concern, they should be brought before the existing trilateral commission. It helps no one to tear down an agreement that has already brought important benefits to the people and businesses of this country.

We cannot sacrifice the economic competitiveness of the United States and the livelihood of our citizens to conjecture and acrimony. As a free, democratic and market-driven country, we have the flexibility to compete internationally and to set the pace in foreign affairs. We must not sacrifice our country's natural role to parochial interests and speculation.

Offshore manufacturing is a reality of the global marketplace in which we all live. American companies will continue to uncover the most competitive advantage for their businesses as long as the U.S. remains a free market economy. Can the American government deny companies the opportunity to compete internationally? Clearly, the answer is—no! Given the ever-expanding anti-trade, anti-NAFTA rhetoric which seems to be the theme of this Congress, how are the American people to interpret the quickness to criticize and the apparent unwillingness to seek real and lasting solutions? It seems the popular political notion is to blame NAFTA for everything that is wrong in this country, whether or not the issue really has anything to do with NAFTA. Do members really intend to ask, in effect, that the U.S. place restrictions on capital movement and competition? What is the message? surely it cannot be U.S. protectionism! Shrinking from our natural leadership role in the world will simply defeat the ability of the U.S. to overcome the inevitable competition that will occur from our trading partners.

We concur that NAFTA has not been completely honed and polished. But let us be clear. As the agreement's critics work to cast blame on NAFTA, they are at the same time prohibiting it from being fully realized. Our members notice this trend particularly in such areas as binational trucking, infrastructure, anti-dumping rulings, and the perpetuation of non-tariff trade barriers (such as the tuna embargo and the tomato anti-dumping suspension agreement, both of which are highly controversial). The United States is not allowing the NAFTA to be fully implemented. As a nation, we are criticizing an agreement that has not even taken full shape. It cannot be fully realized until we, as a nation, commit ourselves to the idea of free trade and the inevitability of the global marketplace.

GLOBALIZATION OF TRADE

The fundamental issue driving globalization is industrial competitiveness, i.e. the ability to place product in the marketplace at a price equal to or better than that of a competitor. Price is nothing more than the sum total of the costs of production with an acceptable margin for profit. To be globally competitive, then, a country must have a total cost of doing business that is attractive to foreign investment. NAFTA has contributed to such an environment in the U.S., as is evident from the fact that since 1995, foreign investment in the United States has increased from approximately $60 billion to approximately $96 billion per year. With this remarkable investment increase has come the creation of countless jobs resulting in the lowest unemployment rate in this country during the last 25 years.

For many of the critics of NAFTA, the real concern is plant relocation and the resulting dislocation of U.S. jobs. The fundamental cause of these phenomena is not NAFTA but rather demand by American consumers. Given relatively fixed incomes, Americans are simply not willing to compromise their standard of living to subsidize higher-priced U.S. goods. Which American consumer bought a Zenith television set in order to maintain Zenith's presence as a U.S. manufacturer? What American consumer purchases a product on the basis of its country of origin labeling? NAFTA does not purchase products, consumers do.

TRADE FIGURES

In 1996, U.S. exports to Mexico reached $72.3 billion—an amount exceeded only by exports to Canada and Japan. This figure represents more than the total of U.S. exports to the United Kingdom and France combined, and more than double what the U.S. exported to Germany. In turn, Mexico imported more goods from the United States in 1996 than did the rest of Latin America, accounting for nine (9) percent of the total of all U.S. exports. That is to say, 75.4 percent of all Mexican imports came from the United States. These figures are a clear indication of Mexico's importance to U.S. exporters. Moreover, thanks in great part to the tariff reductions attributable to the NAFTA agreement, in the first quarter of 1997 alone, Mexico's imports of U.S. made capital goods (machinery and equipment) amounted to $2.3 billion—p 35.7 percent from the same period last year.

Many critics argue that the current U.S.-Mexico trade deficit is the result of the NAFTA agreement. This is simply untrue. Trade deficits between the United States and Mexico are linked to U.S. demand and market forces, not to some malfunction of a trade accord. For example, in the past two years, our trade deficit with Mexico ($3.9 billion in the first quarter of 1997) can be attributed primarily to crude oil and finished automobile imports from Mexico. In 1996, 78.4 percent of Mexico's crude oil exports went to the United States and, by itself, this one commodity represented a trade surplus for Mexico of $8.12 billion. Oil imports from Mexico have increased sharply for three (3) primary reasons: greater U.S. demand, greater production in Mexico, and higher export prices. Such increases have nothing to do with NAFTA but with world prices and global market forces.

THE MAQUILADORA INDUSTRY

The maquiladora (maquila) program is not a NAFTA program. It is not a U.S. manufacturing program. Rather, it is a Mexican program and many of the advantages that maquilas enjoy will be eliminated because of NAFTA. The program was instituted by the Mexican government in 1965 to replace the discontinued U.S. Bracero Program. Mexico's primary aim in developing maquilas was to assist in industrializing the country and in developing its infrastructure, workforce, and employment base. Clearly, technology transfer has occurred in Mexico, as has workforce development and the opportunity for the employment of hundreds of thousands of Mexican citizens (not to mention Americans) in this process. Tijuana, Baja, California, for example, boasts a one (1%) percent unemployment rate. It is due to the maquiladora industry's prosperity that the border region fared better than did the rest of Mexico during the economic recession of 1995.

We could speak volumes about how the maquiladora industry has provided positive economic opportunities for both the United States and Mexico. Maquilas have brought billions of dollars in direct investment commitments to the U.S. and Mexico from around the globe. In particular, the industry has provided stable employment opportunities for Mexican and American citizens.

Maquiladora plants are regularly established within the interior of Mexico, and in fact, manufacturing has increasingly moved from the border region to the interior. The investment climate created by NAFTA has encouraged development and an influx of capital to these regions, thereby relieving some of the socioeconomic stress on the U.S./Mexico border area. In truth, socioeconomic problems are not endemic to the border region. In fact, conditions on the border are, on the average, better than in the interior of Mexico, which is why the border sees such a strong movement of people from the interior to its region. In short, for many Mexicans, the border offers employment and a better quality of life.

THE LABOR AND ENVIRONMENT SIDE AGREEMENTS

The Mexican wage rate is driven by supply and demand. No responsible party in Mexico wants to see workers receive a less than fair wage. But the reality of the situation is that the country must generate 1,000,000 new jobs per year to fully employ the new entrants into its work force. What economy can sustain that level of growth? Mexico consequently will remain a low cost production labor force for the foreseeable future.

The controversy about labor rights still exists regarding Mexico and merits attention. Many correctly claim that real manufacturing wages in Mexico in dollars have declined—but not because of NAFTA. The cause was the sharp peso devaluation. Because of the devaluation, hourly wages between 1994 and 1995 did fall by 33 percent. Between early 1995 and 1997, however, they increased in average dollar terms by 17.1 percent. It is, however, a fallacy to suggest that wages were stagnating prior to the peso crisis. In fact, during 1991–4, the manufacturing wage on average increased 23 percent in dollar terms.

Frankly, the Mexican worker has more protection under his home country's labor laws than does an American worker in the United States. For example, a Mexican worker is guaranteed a number of compulsory benefits under Mexico's labor laws, including health care, housing, education, severance benefits, vacation and profit sharing. Mexico has a minimum wage requirement which dominates its domestic industries. In contrast, the oft-reviled maquilas pay a wage benefit package which exceeds Mexico's domestic industry by, on average, 40%. Maquilas provide the best wage and benefit packages in the Republic.

When discussing the environment, NAFTA's critics suggest that things have gotten worse rather than better in the border region. This implies that NAFTA is the cause of all border ills. There is no evidence to support such an allegation. In fact, since the beginning of NAFTA's implementation, as residents of the border, we have seen improvements and growth in the realm of environmental concerns, infrastructure, quality of life, and in employment opportunities all along our 2,000 mile border from San Diego to Brownsville.

We should not lose sight of the fact that the NAFTA is the very mechanism that now allows us to address these issues. Admittedly, the difficulty with both the BECC and the NADBank has been that they have been slow to respond to the environmental problems plaguing the area. Because the NADBank lacks the mechanism to provide funding at market rates of interest (even for BECC approved projects), delay in improvements has occurred, evidencing the single most significant factor that complicates the integrity and effectiveness of the NADBank. Projects that require investment have of late, however, been clearly identified at the recent U.S. Department of Commerce Infrastructure Summits in San Antonio, Texas.

The BTA wants to point out, however, that if environmental violations are being committed, we should punish the transgressors, not NAFTA. The truth is that thanks to the agreement, the stage has been set for a quantum leap in investment in environmental programs, such as Tijuana's wastewater treatment plant, and the EPA's funding to the IBWC for work at New River, Nogales, and the Rio Grande Valley. Despite their track records, the BECC and the NADBank have, of late, stepped up their efforts to be more effective in the border region, offering greater assistance in approving new projects for environmental clean-up.

Drug Trafficking and the Trade of Illicit Narcotics

A high demand exists in the United States for illicit drugs. This is the painful truth that must be addressed when referring to the United States' trade in illegal drugs. We as a nation have not successfully eliminated demand, much less made a dent in it. Given the relationship between supply and demand, we know that where demand exists, supply will follow.

It is a fallacy to link the demand of U.S. illicit drug consumers and the trafficking of illicit narcotics across our borders to NAFTA—an agreement targeted (from a U.S. perspective) to opening the Mexican market to U.S. consumer goods and the reduction of tariffs between Mexico, Canada, and the United States. NAFTA and drugs have no bearing on each other. The problem existed before NAFTA was created and would exist today even if NAFTA did not. Until we tackle the social and other problems underlying rampant illicit drug consumption, drug smuggling will continue.

Finally, it should be pointed out that despite searching vigorously through a variety of legitimate channels, we are still unable to discover any reliable evidence which supports the oft-quoted figure that 70% of all drugs entering the U.S. cross the Southwest border. Our discussions with law enforcement personnel inevitably lead to the conclusion that drugs will be smuggled into the U.S. by whatever means is available—including cigarette boats which pick up 10 kilo lots off our ocean swells.

Conclusion

Finally, the BTA would like to underscore its support for free trade and for the continued implementation of the NAFTA agreement. As a non-profit, grassroots border advocacy organization, we work to improve conditions for legitimate trade and commerce in the Americas. We have recently testified before the International Trade Commission in support of the NAFTA and have called upon numerous members of Congress to help inform U.S. policy-makers regarding the benefits of the accord. We extend our expertise and knowledge of the border region and of cross-border trade and commerce to the Sub-Committee in the hopes that you will use our organization as a source of information and expertise about the Southwest border region. Towards that end, we look forward to working with members on both sides of the aisle as the NAFTA story is told.

Statement of Anita Sheth, Director of Trade Policy, Citizens for a Sound Economy

Good morning. My name is Anita Sheth, and I am the Director of Trade Policy at Citizens for a Sound Economy (CSE), a nonpartisan research and education organization dedicated to solving public policy problems through market-based solutions. On behalf of our 250,000 members nationwide, I thank you for the opportunity to discuss the impact of the North American Free Trade Agreement on the U.S. economy.

THE BENEFITS OF FREE TRADE

At CSE, we believe that a strong and vibrant free-market economic system offers the best hope for creating opportunity and improving the quality of life for every American. It is the individual American, and his or her freedom to make choices and efforts to pursue those choices, that drives that free-market economic system. We believe in preserving America's right to economic choice—economic choice that should not stop at the border. As such, we support the right of all American citizens to engage in voluntary trade with individuals throughout the world. In preserving this right, we are preserving a strong and vibrant free-market economy.

As governments begin interfering with the free market by imposing trade barriers, they are in essence determining the winners and losers in the global economy—at the expense of the individual, and thus, the economy as a whole. In time, those industries with the best lobbyists—not the best prices, products or services—are deemed winners by the government. Whenever protectionist policies are implemented, the losers are the people. They are the ones who are prevented from exercising their right to choose, and thus end up paying more for inferior goods.

Protectionists will proclaim loudly that we can't compete with cheap foreign labor, or inferior foreign products without lowering our living standards. Yes, if a foreign industry can provided a product at a lower cost than an American industry, it directly affects that American industry. However, other Americans benefit from the cheaper imports. In addition, the money they save allows them to buy other products, or to invest, creating new jobs in other industries. At the same time, the dollars foreigners earn from their U.S. sales must either be spent on other American goods or otherwise invested in the U.S. economy, also creating new jobs.

The benefits from exports are most easily visible. But, benefits of free trade are not limited to the profits from exports—they include preserving our economic strength, fostering economic growth, and improving our standards of living through increased purchasing power and higher-paying jobs. Furthermore, free trade has played a historically significant role in bringing together the citizens of the diverse countries and cultures of the world through peaceful commerce.

For these reasons, CSE was proud to support the implementation of the North American Free Trade Agreement (Nafta) over three years ago. And today, on behalf of CSE, I would like to testify that the impact of Nafta on our economy since its implementation on January 1, 1994 has been positive.

NAFTA, THE TRADE DEFICIT, AND THE STATE OF THE ECONOMY

The North American Free Trade Agreement (Nafta) is a monumental document that enables Americans, Canadians, and Mexicans the right to freely do business with each other. Nafta is NOT the cause of cancer, earthquakes, or today's trade deficit, for that matter—despite what you may have heard over the past few years. Most economists seem to agree that the major factors contributing to the most recent trade deficits are the strong U.S. dollar, substantial U.S. economic growth, weaker growth in the Pacific Rim, and even seasonal trends.[1] Protectionists often point to the trade deficit when attacking free trade agreements—blaming it for everything from "lost manufacturing jobs" to "a weak U.S. economy." Because the persistent U.S. trade deficit is thought to be at the very least augmented by the implementation of Nafta, I would like to emphasize that despite recent high trade deficits, our economy has done quite well since the implementation of Nafta.

On March 3, 1996, during an appearance on CNN, Patrick Buchanan stated: "Our merchandise trade deficit was $175 billion (in 1995). For every $1 billion, you get 20,000 jobs. That's 3.5 million American workers who would have had good manufacturing jobs if we simply had a trade balance."

There are two responses to this argument: one theoretical and one empirical.[2] Both show the protectionist approach to be wrong, self-defeating, even harmful. While the theoretical support for free trade (which was summarized earlier) often gets drowned out by rhetorical response from those opposing free trade, the empirical support for free trade provides ample reason to avoid a protectionist philosophy. All it takes is a brief look at the past two decades of economic history to see a number of ways in which protectionist arguments fail.[3] It also becomes evident that while Nafta's effects are not as significantly positive as its benefactors would like, these effects are certainly positive—and far from the doomsday predictions of its detractors.

Furthermore, at least three observations become readily apparent. For example, the number of jobs in manufacturing has not declined—since last year or over the past 20 years—despite what many have said here. Additionally, trade deficits have no relationship with the level of employment in manufacturing. Finally, years in which the U.S. has run trade deficits have also been years of increasing—not decreasing—income for the average American.

One of the most popular myths passed on by the protectionists is that trade deficits reflect a loss of jobs, especially the "good manufacturing jobs" often highlighted by many that have appeared before this Commission. And while there is an ounce of truth in this argument—some jobs in manufacturing do in fact go to other countries—new manufacturing positions also become available in the U.S. In fact, "8 million more Americans are employed today than before NAFTA, including 181,000 added to the manufacturing ranks."[4]

Moreover, the number of manufacturing jobs has no apparent relationship with the existence or relative size of a trade deficit. As shown in Figure 1, the United States' trade deficit as a percentage of GDP has varied significantly over the past 20 years, yet the number of jobs in manufacturing has held fairly steady.[5] Given this fact, Mr. Buchanan's claims about the number of good manufacturing jobs America could have had—and presumably lost to foreigners—is obviously false.

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[1] Richard Lawrence, "January trade gap hit record," *The Journal of Commerce,* Mar. 21, 1997, p. A1; Helene Cooper, "U.S. Trade Gap Widened in January; Pushed by Growing Deficit with China," *The Wall Street Journal,* Mar.21, 1997, p. A2; UPI Staff, "Economist: Deficit Grows on US Strength," *United Press International,* Mar. 20, 1997.

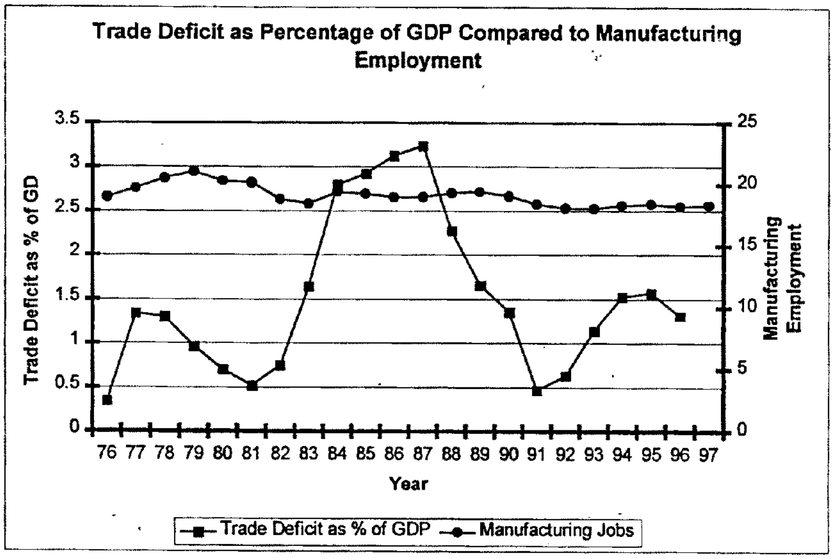
[2] Much of this information on the trade deficit is summarized from a more in-depth issue analysis: Wayne Leighton, updated by Anita Sheth, "Playing with the Numbers: Why Protectionists Are Wrong About Trade." #31, *Citizens for a Sound Economy Foundation, Apr. 30, 1997.*

[3] From a centuries-long historical perspective, the evidence also supports the theory of free trade, and points to protectionism as a source of impoverishment. Embracing free trade has assisted some of the fastest-growing economies in history, from England in the mid-18th century to Hong Kong in this century. At the same time, ignoring the dangers of protectionism has accompanied considerable economic hardship, with the most famous example being the experience of the U.S. and many other countries immediately preceding the Great Depression.

[4] Paul Blustein, "NAFTA: Free Trade Bought and Oversold." *The Washington Post,* Sept. 30, 1996.

[5] In the graph used here trade deficit data are expressed as a percentage of GDP so as to show the relative weight such a deficit had on the economy in a given year. Comparing manufacturing employment and the total trade deficit also shows no relationship between these two measures.

FIGURE 1



Source: International Trade Administration, U.S. Department of Commerce, U.S. Department of Labor.

The effects of Nafta on the U.S. auto manufacturing industry is one particular case that deserves further examination. Opponents of Nafta say that hundreds of thousands of auto jobs are being lost as a result of the trade gap between the U.S. and Mexico, which "exists because of Nafta."[6] However, the U.S. Labor Department reports that autoworkers' jobs increased from 833,000 in the year before Nafta's adoption to 950,000 today. Considering that the growth in worldwide demand for U.S. automotive products averaged a lowly 1.2% between 1991 and 1996, the addition of 100,000 jobs is remarkable.

Furthermore, it must be noted that Mexico is recovering from its biggest recession in sixty years following the Peso crisis in December 1994. This resulted in Mexico's temporary inability to buy U.S. goods. The last time Mexico had a currency crisis, it took seven years to reach the recovery point they are at today. Why? Nafta legally binds Mexico to keep its markets open. The Mexican response following a much milder crisis in 1981 was to raise tariffs. The U.S. automotive industry was shut out of the Mexican market. This time around, U.S. motor vehicle exports were still double their pre-Nafta 1993 levels. In fact, the growth of jobs in the auto sector could be attributable to Nafta. Before 1993, Mexico was a virtual fortress to U.S. automobiles. But American automobile manufacturers have experienced an expanding market south of the border at a time when all other developed markets remain saturated. By 1996, Mexico imported an impressive 86,000 vehicles, or roughly 236 a day.[7]

Despite the fact that manufacturing jobs, even auto manufacturing jobs, are clearly not in decline, many feel trade deficits as caused by free trade agreements must somehow make us worse off. If not by increasing unemployment, then in some other way trade deficits impoverish the average American. However, this opinion reflects nothing more than the marketing success of those who push protectionist policies.

Employment in manufacturing has held steady for two decades—dispelling Mr. Buchanan's claim of job losses. In fact, overall employment has done even better, rising almost every year during this same time period. The Department of Com-

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[6] John Lippert, "Troublesome Auto Trade Gap Growing." *The Arizona Republic*, p. E1, Apr. 1, 1997.

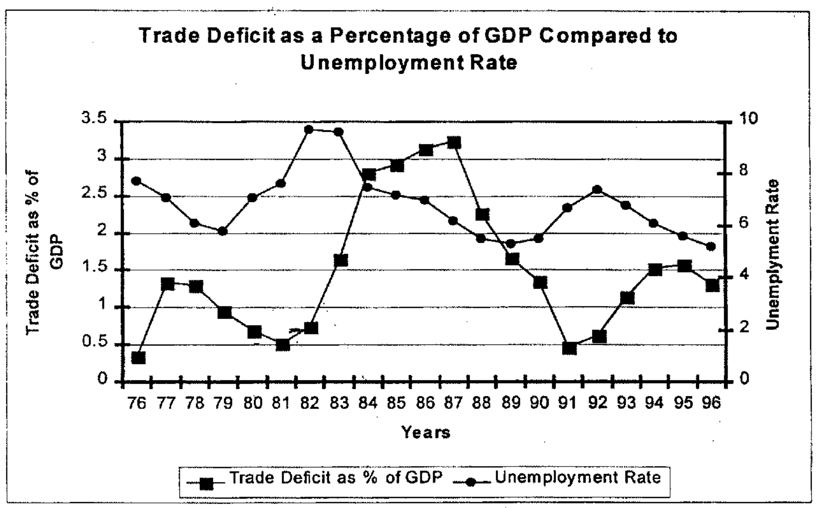
[7] Willard Workman, Prepared Statement before the House Committee on International Relations, Subcommittee on International Economic Policy and Trade Subcommittee for Hearing on Report Card on Nafta. Mar. 5, 1997.

merce reports that the total number of non-farm jobs grew over 50 percent from 1976 to today.

Of course, a 50 percent increase in jobs is less significant if the total number of workers grew even faster. We should, therefore, consider these changes in context. And perhaps the best way to compare the number of working Americans to the number of available workers is to look at the overall rate of unemployment.

The level of unemployment in the country over the past twenty years has varied from five percent to a little under ten percent. While this is a fairly wide range, the variation itself has little if anything to do with trade deficits. If trade deficits destroy jobs, then we should see high rates of unemployment—either immediately or within a short period of time—whenever trade deficits become a larger part of the overall economy. As demonstrated in Figure 2, no such relationship exists. On the contrary, a nearly opposite correlation seems to take place. And unemployment since the implementation of Nafta has remained under 6.5%. Trade deficits have often been a large part of the economy at the same time unemployment has been falling. In short, high levels of unemployment do occur, and they do cause economic hardship. But they are not the result of trade deficits or trade agreements.

FIGURE 2



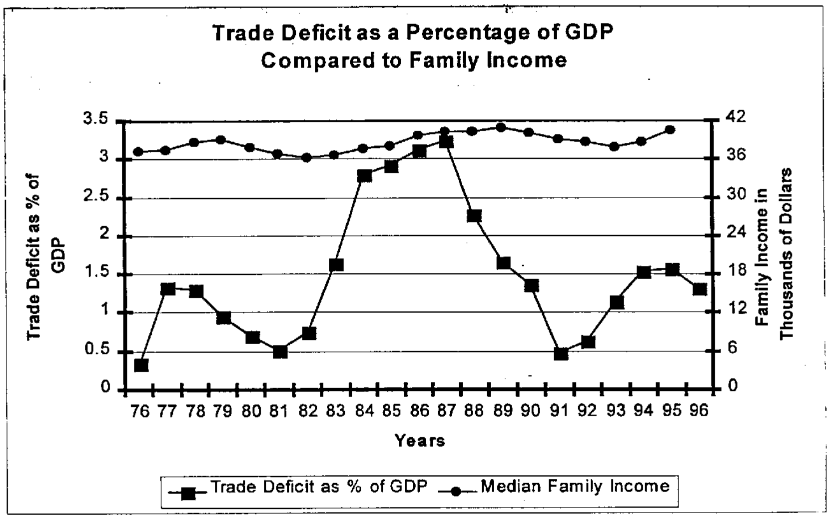
Source: International Trade Administration, U.S. Department of Commerce, and Bureau of Labor Statistics, U.S. Department of Labor.

If trade measures don't hurt employment, how about other measures of economic well-being such as income? There is a certain anxiety today about incomes and the ability of one or two wage-earners to support a family. Many have claimed large trade deficits that resulted from Nafta play a role in explaining this anxiety.

Yet, while large trade deficits may make people feel anxious, they do not make the average family worse off. In fact, as shown in Figure 3, years with the highest real family incomes have often been years with relatively large trade deficits.[8] This does not, of course, mean that large trade deficits are the cause of an increase in family incomes. However, it does show that trade deficits have not decreased family income, as protectionists claim.

[8] Median family income represents that income level at which half of all families earn less than this amount and half earn more than this amount. By focusing on median instead of mean income, we avoid biasing the estimate with very large earnings by the highest earners. Also, the correlation between high median family incomes and a high nominal trade deficit is much like that between high incomes and a large trade deficit as a percentage of GDP. As before, we simply focus on the relative weight of a trade deficit instead of an absolute value.

FIGURE 3



Source: International Trade Administration and Bureau of the Census, U.S. Department of Commerce.

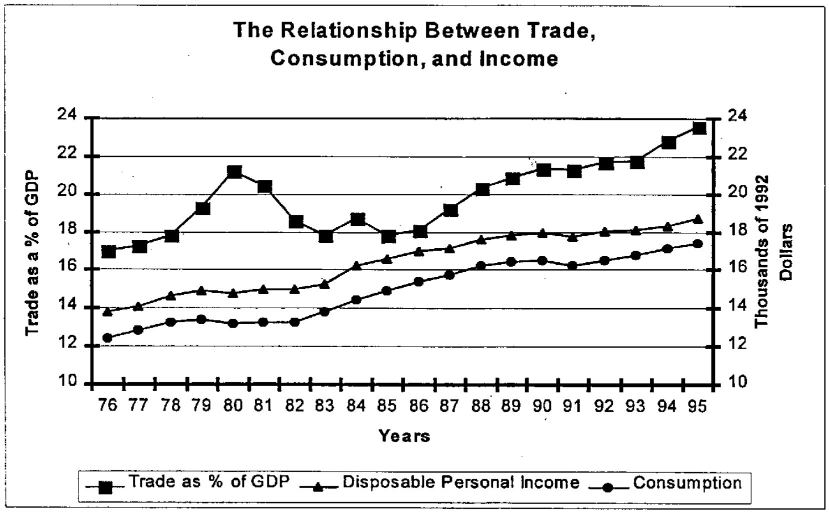
TRADE, AND NAFTA, LEAD TO PROSPERITY

Protectionist arguments fail because they focus on the wrong things. The fact is that the size of the U.S. trade deficit has little if anything to do with the sources of economic prosperity. Employment, income, and other measures of well-being are in the long run directly affected by the decisions made by individuals and their government. For example, high levels of saving and investment, as well as quality education, all tend to promote economic prosperity. Practicing protectionism so as to limit trade deficits does not.

But does trade itself really matter very much? Do we need it to prosper? The answer is yes. While no single source accounts for our economic well-being, there is a definite, positive relationship between the level of trade and the total amount of goods and services enjoyed by—and income of—the average American. And without a doubt, Nafta has increased the level of trade in this country. In their report on U.S. Jobs and Nafta, the U.S. Department of Commerce noted that "During Nafta's first two years, U.S. goods exports to our Nafta partners were up by 22%, or nearly $31 billion to $173 billion. Moreover, the growth in U.S. goods exports to our Nafta partners accelerated in 1996 by 34%." Not just the trade deficit, but the level of trade itself has. Specifically, as trade with other countries has become a larger part of our economy, per capita income has risen at a brisk pace. Figure 4 illustrates this relationship.

For the average American, personal income has risen steadily over the past two decades, and trade has risen to become an even larger part of our economy, from under 15 percent of our GDP in 1976 to over 25 percent today. Thus, as we have purchased more from and sold more to other countries, we have been able to enjoy more goods and services for ourselves. At the same time, the income of the average American—and the ability to purchase goods and services—has also increased. Personal income has steadily risen ever since Nafta's implementation, and at a relatively higher rate. Over the past 20 years, per capita disposable income (adjusted for inflation) has risen from just under $13,800 to over $18,700 per year. Frequently, the largest increases in income have accompanied large increases in the level of foreign trade—and these can be traced to Nafta. Again, while this does not show trade to be the one and only factor affecting economic well-being, it does demonstrate that trade is an important part of a healthy and growing economy.

FIGURE 4



Source: Foreign trade as a percent of GDP represents author's calculations from data by the International Trade Administration, U.S. Department of Commerce, with foreign trade expressed as the sum of exports from and imports to this country. All other data from 1996 Economic Report of the President.

CONCLUSION

The fact is, that trade deficits are a grossly inaccurate way of determining the competitive performance of a nation in the global economy. The U.S. deficit has been rising lately in large part because the U.S. economy has been considerably stronger than those of its largest trading partners (two out of the top three trading partners being Mexico and Canada). This has caused Americans to draw in greater amounts of imports. What should be noted is that America's high trade deficits are not the result of an inability to export. Moreover, Nafta has increased our ability to export. The results: the United States has been increasing its exports at an average rate of 10% per year for six years—considered phenomenal for as mature and large an economy as America's.

The rhetoric of trade protectionists fails to conform to the reality of the marketplace. Running a trade deficit does not cost America jobs, nor does it hurt the average family. The number of manufacturing jobs in this country has been holding steady, the total number of jobs has been growing consistently, and the disposable income of the average individual has continued to rise—all during a time in which the trade deficit has been positive, often quite large, and during which Nafta has been in effect.

Moreover, hysteria over the nearly record-high trade deficits in 1996 and 1997—especially the claim that millions of "good manufacturing jobs" relocated abroad—is unwarranted and unnecessary. The fact is that the number of jobs in manufacturing has fluctuated little over the past five years—during which we have had some of the largest trade deficits in recent history. Total employment grew even more significantly, and other measures of economic well-being showed promising results as well.

Perhaps most importantly, protectionists forget that international trade—which can create either a deficit or a surplus—plays a critical role in our economy. This point is too often overlooked by those who would "protect" our domestic interests through trade barriers and other restrictions. Increasing our trade through Nafta has allowed for an increase in our own standard of living. Following a protectionist philosophy would directly threaten this important economic benefit. At the same time, such protectionism would do nothing to promote the good jobs protectionists say they can bring us. These jobs—like the quality of life of all Americans—are not threatened by Nafta, they are improved because of it.

The Subcommittee on Trade of the Committee on Ways and Means has provide a valuable service by attempting to review the effects of the North American Free Trade Agreement on the U.S. economy and its industries. I believe, and hope my participation substantiates, that those effects have been positive.

Statement of Stephen P. Dees, Farmland Industries, Inc., Kansas City, Missouri

On behalf of the farmer-owned Farmland System, I would like to commend you, Mr. Chairman, for holding this hearing to review the North American Free Trade Agreement (NAFTA). I am Steve Dees, Executive Vice President, Corporate Relations, Communications and International Services for Farmland Industries, Inc.

Farmland Industries, Inc. is the largest farmer-owned cooperative in North America with over 1,400 local cooperative members, serving 500,000 farmer-rancher families in 22 Midwestern states, Mexico and Canada. Also, more than 13,000 livestock producers are direct members of Farmland, marketing their hogs and cattle. It is this network of farmers, farmer-cooperatives and Farmland—and the many people who work for them—that make up the Farmland Cooperative System.

Headquartered in Kansas City, Missouri, Farmland manufactures and distributes to its farm cooperative members agricultural inputs, including petroleum, crop production and feed. Domestic and international marketing opportunities are provided for our member-owners' agricultural outputs, including the slaughtering, processing and marketing of pork and beef, and grain processing and marketing. The Farmland System conducts business in all 50 states and more than 70 countries. Farmland employs over 15,000 people in 185 locations in the United States.

The future economic well-being of American agriculture is closely tied to our competitiveness in an expanding global market. The importance of trade to the future of American agriculture has been emphasized under the 1996 Farm Bill, with the reduction in support to producers from domestic farm programs. US producers now depend on exports for over 25 percent of gross receipts. This is anticipated to be 35 percent by 2003.

In response to this globalization, Farmland Industries has developed business strategies that reflect a strong commitment to expanding world markets. The farmers and ranchers who own the Farmland System are very much involved in expanding international markets. In the past six years, our international sales have grown from less than $200 million to over $4.1 billion. We believe US policy must also be dedicated to the expansion of global markets.

Within the Farmland System, one of the most discussed policies of the United States is the North American Free Trade Agreement (NAFTA). Farmland strongly supported ratification of NAFTA by the US Congress and was a key element in organizing support from the agricultural community for the November 1993 ratification. We recognize that the controversy surrounding NAFTA will have a major impact on any future free trade initiative of the US. In turn, we recognize that negotiating and modifying existing agreements and establishing new agreements is critical to our competitiveness.

As I see it, two important questions are being asked as part of the debate: has NAFTA worked for the farmers, ranchers, employees and families of the Farmland system and for American Agriculture?; and should the Administration be granted authority—under conditions similar to those used to negotiate NAFTA—to begin talks regarding new or expanded trade agreements?

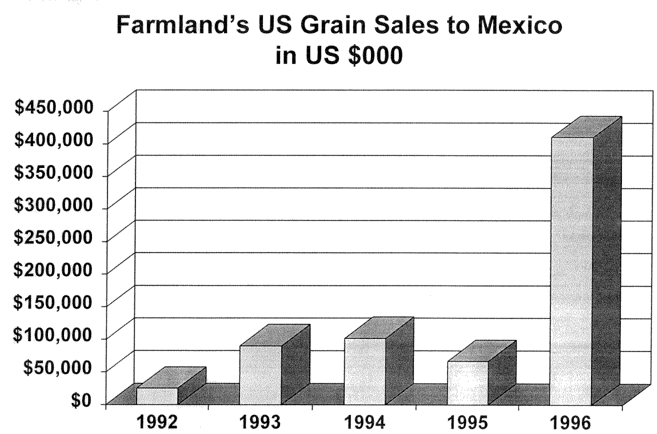
Farmland's farmer ownership and our focus on international markets give us a unique perspective on the impact of NAFTA on American agriculture.

As we begin the fourth year of NAFTA, some important observations can be made:

• Farmland has benefited from increased access to the Mexican market. The market opening agreements contained in NAFTA have been especially important to sales of grain—wheat, corn and soybeans. In 1993, our grain sales were around 300,000 metric tons. In Farmland's 1996 fiscal year, we sold 1.9 million metric tons and this year we are well on our way to selling substantially more than 2 million metric tons (Reference chart 1). NAFTA provided for initial elimination of liscencing requirements phased in quota and tariff reductions. Combined with the potential demand, these measures make Mexico a most important market for U.S. grain producers.

Farmland & Mexico

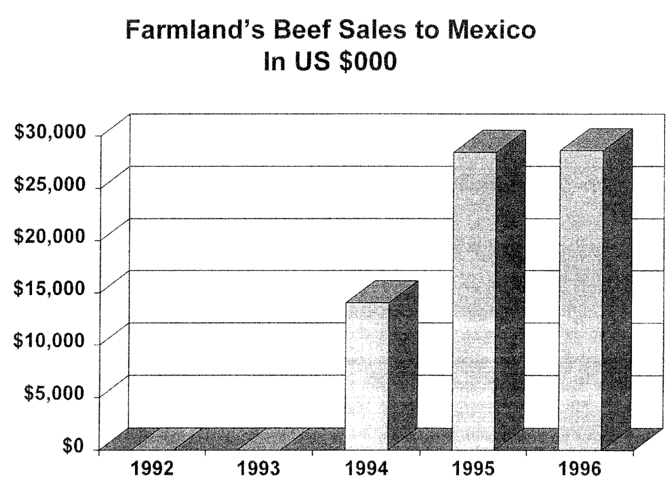
Chart 1



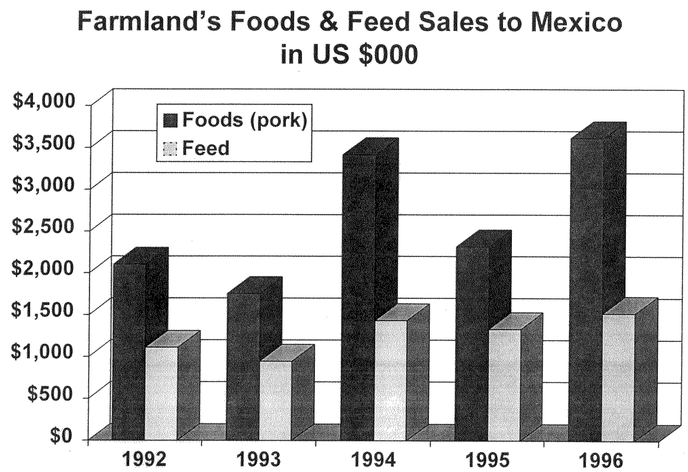
• Our value-added marketing into Mexico has shown and continues to show great promise. Sales of products from our subsidiary National Beef Packing Co. have nearly doubled in two years, going from $14 million in 1994 to $28 million in 1996. Similar results for Farmland Foods, our pork operations, have been achieved: in 1993 Foods sales to Mexico were about $1,700,000; in Fiscal Year 1996 Foods sold over $3,500,000 of products in the Mexican market. Through seven months in 1997, we have almost reached that same level ($3.0 million). Likewise, large animal feed and pet food sales have improved and are the focus of an aggressive plan for expansion (charts 2&3). The tariff and quota reductions incorporated in the NAFTA are critical to our expanded marketing of pork and beef.

Farmland & Mexico

Chart 2



Farmland & Mexico Chart 3

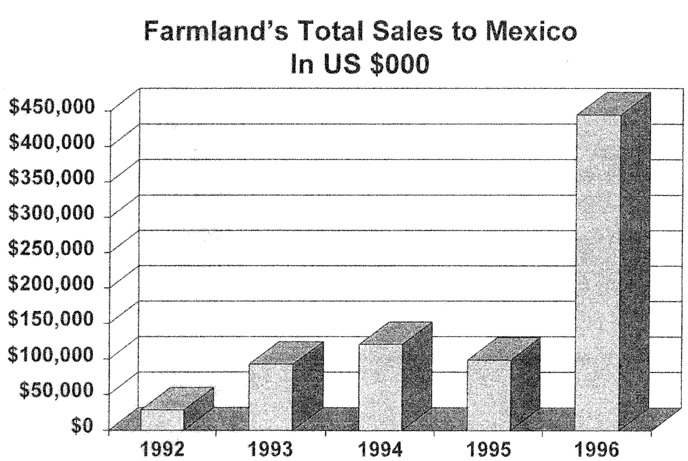


• The Mexican market, due in large part to the impact of NAFTA, is so important and promising that Farmland is participating in the improvement of the infrastructure supporting Mexico's food and agricultural sector. We have established or are in the process of completing investments in refrigerated distribution, meat processing, and animal feed manufacture.

• In response to the opportunities supported by NAFTA, Farmland has extended service to new members in both Mexico and Canada. An expanded membership base benefits all by adding to the efficiencies of our cooperative supply and marketing services.

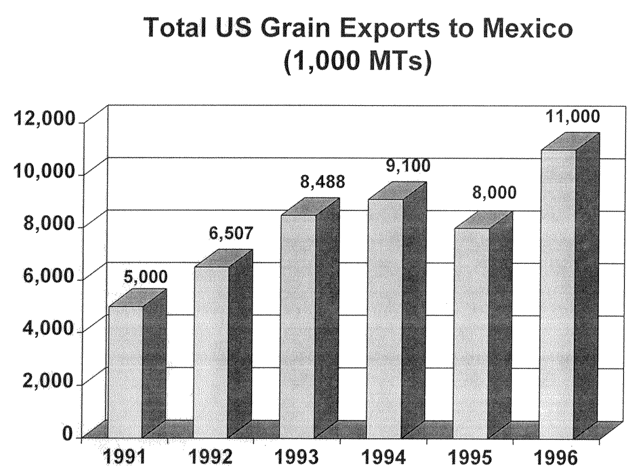
• In total, Farmland has enjoyed an increase in total sales to Mexico from less than $50 million in 1992 to nearly $450 million in 1996. As a result, Mexico has become a key for our international marketing plans (chart 4).

Farmland & Mexico Chart 4



• Our success in Mexico in the last few years is not unique. Please keep in mind the Mexican economy went through one of the roughest periods it has ever experienced. Throughout this time, Mexico has continued to be a good, steady customer of American agricultural products, as evidenced by its import of American grain and oil seeds over the last few years (chart 5). In 1996, at a time of continued recovery of the Mexican economy, US agriculture had a positive balance of trade with Mexico. US exports of agricultural products—at $3.5 billion—were $1 billion more than imports from Mexico in 1996.

Farmland & Mexico Chart 5



• The protein consumption of the average Mexican is far below the levels for the United States. We know from past experience, particularly the period before the last economic crisis, that as the economic condition of the Mexican consumer improves, that consumer spends more money on meat, eggs, and dairy products. As Mexico is coming out of its crisis now, we see nothing but increasing importance of this market to our members.

At Farmland we have also drawn some important conclusions about new or expanded trade agreements:

• International trade is becoming more and more important to the US farmer and to the US economy. US agriculture's export dependence is rising. Improving productivity and slow growth in domestic demand means agriculture's future prosperity rests with a rising export market. US agriculture holds first place as largest contributor to the US Merchandise Trade Balance in 1995 and in 1996. Our agricultural exports totaled over $58 billion in 1996!

• Increasing farm exports are very much a function of increased economic well being in developing countries with large populations. Since the economic crisis of 1995, Mexico has used expanded trade with the US and Canada as an important tool in an impressive recovery. The Mexican overall trade balance went from an $18.5 billion deficit in 1994 to a $7.1 billion surplus in 1996. Because of the recovery of the Mexican economy in 1996, when GDP grew 4.5 percent, US exports to Mexico are 20 percent higher than before the peso crisis and 35 percent higher than before NAFTA.

• Since the US ratified NAFTA, new regional and bilateral free trade agreements have been aggressively pursued by our neighbors and in promising agricultural markets. From our perspective, the most important new agreements are the Canada/Chile agreement, the South American Southern Cone (MERCOSUR) and Association of South East Asian Nations (ASEAN). Equal access to these important growing markets is important to the future of US agricultural trade. We are concerned that the US may not be adequately represented at the negotiating table on new agreements since "fast-track" expired with the approval of NAFTA.

While the first three years of NAFTA show that the integration process between the US, Canada and Mexico will not be a smooth, straight path, U.S. agriculture has benefited strongly from expanded trade opportunities. While there have been some surprises and with respect to some specific issues, some disappointments, on balance the trade agreement has worked well to remove barriers and increase trade. We must insist on aggressive, but fair enforcement of the terms of the Agreement, but we must also recognize that as trade opens up, that means opportunities for all of the countries involved. There will be increased trade opportunities for the Mexicans and Canadians as well. Most importantly, let's keep the big picture in mind. From our standpoint, looking at the larger interests of American producers as a whole, our clear answer to the question, "Does NAFTA work?" is yes, emphatically.

In summary, we are convinced that the Farmland Cooperative System and US agriculture in general has, and will continue to benefit from expanded opportunities that result from the reductions in trade barriers accomplished with new trade agreements. Those benefits include the creation of jobs and a stronger agriculture and rural economy here in the United States. We encourage and support further efforts by the US government to expand and maintain our opportunity in the North American, Hemispheric, and global marketplace. Farmland continues it's endorsement of NAFTA and encourages the re-establishment of "Fast Track" trade negotiating authority.

Statement of Jim C. Kollaer, President and Chief Executive Officer, Greater Houston Partnership

THE EFFECTS OF NAFTA ON HOUSTON: FOUR YEARS LATER

My name is Jim C. Kollaer, and I am the president and CEO of the Greater Houston Partnership, the primary advocate for Houston's business community. The Partnership is dedicated to building economic prosperity throughout the eight-county region. The Partnership represents 2,400 member companies which employ about 500,000 Houstonians, or one-third of the work force. Partnership members range in size from small one-and two-person firms to multi-national corporations.

The North American Free Trade Agreement, signed into law in 1993, has been a resounding success for Houston. The benefits of freer, less expensive trade between the Houston region and Mexico resulted in many new joint business ventures, increased imports and exports, and many more jobs for Houstonians.

Between 1993 and 1996, air cargo to and from Mexico has increased 19.5 percent, sea trade has soared 105 percent and exports from Houston to Mexico have jumped 28.2 percent. Air passengers to and from Mexico through George Bush Intercontinental Airport/Houston increased 30.9 percent during the same period. And, Houston companies trading with Mexico grew from 17 percent in 1993 to 23 percent in 1996. (See Addendum One)

Houston is historically bound to Mexico and has the cultural, economic and infrastructural base to develop these relations into a pre-eminent position as the U.S. gateway to this important market. Mexico's significant role in Houston's economy is more easily understood if it is remembered that Mexico City is closer geographically to Houston than to Chicago.

Increased Representation

A delegation of Houston business leaders became the first group to officially visit Mexico following approval of NAFTA by Congress. The delegation, organized by the Greater Houston Partnership, traveled to Mexico on Nov. 22, 1993, to congratulate Mexican President Salinas de Gortari and other high-ranking government officials of Mexico on the successful ratification of NAFTA. A delegation from Houston also was present for the inauguration of President Ernesto Zedillo Ponce de Leon in December 1994.

Mexico has extensive official government representation in Houston including: Consulate General of Mexico and a special trade section within the Consulate General,

Mexican Government Tourist Office; Banco Nacional de Mexico; Casa Guerrero, a permanent office representing the State of Guerrero; and Casa Oaxaca, a trade office that promotes business ties between Houston and Oaxaca.

Business and cultural relations are also fostered through numerous organizations in Houston including the Houston Hispanic Chamber of Commerce and the Institute of Hispanic Culture. The Greater Houston Convention and Visitor's Bureau and the Texas Department of Commerce both maintain offices in Mexico City. Houston is a partner city with Monterrey.

The University of Houston has more than 75 different international initiatives, and Mexico accounts for roughly one-third of the total. For example, the Ministry of Tourism and the University's Conrad N. Hilton College of Hotel and Restaurant Management have an agreement covering joint research, student exchange and training programs.

In 1993, when the Houston International Festival featured Mexico, 800 business people from both sides of the border attended the Partnership's "Doing Business with Mexico" seminar. That effort was continued in 1994 when Houston hosted the Trilateral Conference of Chambers of Commerce of North America.

The investment Mexico and the U.S. are making in each other continues. In October 1997, the U.S. Hispanic Chamber of Commerce will hold its national convention in Houston with a specific focus on trade with Mexico. Also in October, the "Access Mexico Energy Symposium '97" will focus on government policies and industrial strategies within the energy sector which approximately 500 business people from both countries are expected to attend.

In April 1997, the first Access Mexico Trade and Investment Conference, hosted by the Greater Houston Partnership and the Consulate General of Mexico, attracted more than 600 participants. The two-day event attracted five Mexican state governors and corporations interested in generating business in some of the areas outside of Mexico City, including the states of Nuevo Leon, Tamaulipas, San Luis Potosi, Jalisco, Veracruz and Mexico. More than 800 one-on-one meetings were held during Access Mexico '97 where $40 million in business deals were negotiated.

Houston hosted the 1996 Cuatro Caminos International Trade Show and Conference, attracting people from all over the world to the city. In 1996, the Partnership hosted 20 business events focusing on Mexico, including five in-bound trade missions, three out-bound trade missions and 14 trade delegations. More than 2,000 Houstonians and visitors participated in these events. That's up from 1995, when the number of trade missions had been one in-bound and five out-bound, and in 1994, when the Partnership held 10 seminars and briefings.

More Joint Ventures

Today, more than 800 Houston-area companies conduct business in Mexico, and many Mexican-owned firms operate in Houston. Such firms include Pemex, AeroMexico, Banamex, Telmex, Bufete Industrial and Cemex.

Houston, of course, also has strong cultural ties with Mexico. More than 20 percent of Houston's population is Mexican-American. Based on the latest estimates, the Houston metro area has the largest Mexican-American population in Texas, and 85 percent of Houston's international visitors are from Mexico.

These cultural ties help create a comfortable operating environment for cross-border business, and Houstonians travel to Mexico on a daily basis to conduct important business transactions. According to the City of Houston Aviation Department, Houston offers more daily flights to and from Mexico than any other city in the United States, except Los Angeles.

Numerous examples of the Houston region's commitment to strengthening its relationship with Mexico abound with large and small companies alike. In December 1995, a group of Monterrey businessmen opened "Beyond the Border," a store featuring Mexican artisan objects. The store, located in Houston's museum district, provides an export market for Mexican hand-crafted and factory made products.

Hines, a Houston company and one of the country's leading real estate developers, recently joined two Mexican firms in the construction of Parque Industrial Queretaro, a $50 million, 750-acre industrial park. Funding for the investment came from U.S.-based pension funds, the first such major investment in Mexican real estate development. Hines has had other projects in Mexico, including Del Bosque, a large office and residential development in Mexico City's Polanco District.

Since 1993, Fugro-McClelland Marine Geosciences of Houston has been the primary offshore geotechnical consultant for Pemex in the design of offshore oil and gas platform foundations. Fugro surveys proposed platform locations, conducts core drilling, laboratory analysis, and engineering design to develop foundations recommendations for the platforms.

El Paso Energy of Houston, through its international subsidiary, is a 40 percent partner in the consortium building which is a new 700 megawatt power plant at Samalayuca. This $650 million plant is being constructed for the Comision Federal de Electricidad and will provide power to the State of Chihuahua. El Paso is also constructing a 45-mile pipeline to supply gas to the Samalayuca project, Cuidad Juarez and Chihuahua City. The line is a joint venture with Pemex.

Houston's NorAm Energy Corp., the nation's third largest natural gas distributor and just purchased by Houston Industries/Houston Lighting & Power, and Mexico's Grupo Gutsa S.A., a leading, private construction company, recently formed a joint-venture to distribute and market natural gas in Mexico.

In August 1995, Houston-based Amoco Pipleine Co., in partnership with Mid-America Pipeline Co. and Navajo Pipeline Co., announced plans to form a joint-venture to build a pipeline exporting natural gas liquids to Mexico. The 300-mile pipeline transports natural gas liquids from The Hobbs Station in Texas to Ciudad Jaurez, Mexico.

Shell has a three-year-old partnership between Pemex and its Deer Park Refining Company. Shell is assured a steady supply of crude oil, and Mexico is assured a market for that crude, along with a supply of high-quality fuel. "The $1 billion invested in the new coker there to help process 170,000 barrels of Mayan crude a day has been money very well spent," said Philip J. Carroll in an address to President Zedillo on August 4, 1997. Shell is also considering an expansion to the coker unit to accommodate increased need, according to Carroll.

Also, Shell Chemical Company's new $100 million Altamira polyethylene plant is scheduled to open fall 1997. For the past 40 years, Shell has had an active presence in the lubricants and chemical business in Mexico and operates a lubricants blending facility in Leon. Shell participated in a public tender offer for the financing, construction and operation of the largest nitrogen distillation plant in the world. This nitrogen will be used to significantly enhance oil recovery in the Cantarell Field.

Increased Trade—By Sea, By Air

Texas was the largest state exporter to Mexico in 1996 and Mexico is an equally important trade partner for Houston. Mexico is Houston's largest trading partner by waterborne cargo, and second largest by airborne cargo. Mexico accounted for 6.14 percent of international cargo through the Port of Houston in 1996. Total seaborne trade with Mexico totaled more than $2 billion dollars in 1996. (See Addendum 1 & 2)

Houston's seaborne imports from Mexico in 1996 were valued at more than $1 billion. Leading import products were mineral fuels and oils, organic chemicals and vehicles. Seaborne exports to Mexico in 1996 totaled more than $948 million. Leading export products were mineral fuels and oils, organic chemicals and cereals.

Mexico is Houston's second largest air cargo trading partner, and is the city's leading import origin of air cargo trade. In 1996, air cargo trade between Houston and Mexico totaled approximately 9.3 million kilograms, up 18 percent from 1995. Imports totaled roughly 6 million kilos, accounting for 64.9 percent of total air cargo trade with Mexico. Exports totaled 3.2 million kilos.

Houston is the second largest U.S. international gateway to Mexico, and as of March 1997, offered more flights to Mexico than any other U.S. city except Los Angeles. Houston offers 432 non-stop flights a week to and from 12 major Mexican destinations. Passenger traffic between Houston and Mexico reached 1.6 million passengers in 1996, up 18 percent from 1995. AeroMexico, Aviateca and Continental Airlines offer scheduled passenger service to and from Mexico. Aeromexpress, DHL and United Parcel Service provide air cargo service to Mexico. (See Addendum 3 & 4)

More Jobs for Houstonians

According to International Houston: 1997 International Business Directory just over 100 Houston firms have offices in Mexico, 774 Houston firms trade with Mexico, and more than 1,100 firms trade with the countries of North America, including Mexico. In addition, 13 Mexican companies have offices in Houston. Current estimates are that one-third of all jobs in Houston are related to international trade, and Mexico is one of Houston's most significant international trade and investment partners.

The relationship between Texas and Mexico has never been better. Export trade from Texas to Mexico has grown from $18.8 billion in 1992 to $27.2 billion in 1996—a 43.6 percent increase. In fact, Texas enjoys nearly a 50 percent market share in trade with Mexico—three times as much as California, which is in second place.

The Greater Houston Partnership has no doubts about the success of NAFTA. Partnership members talk daily about how easier access to trade with important partners such as Mexico helps bring prosperity to Houston. The critics are wrong—NAFTA works for Houston, and for the United States.

The Effects of NAFTA on Houston: Four Years Later

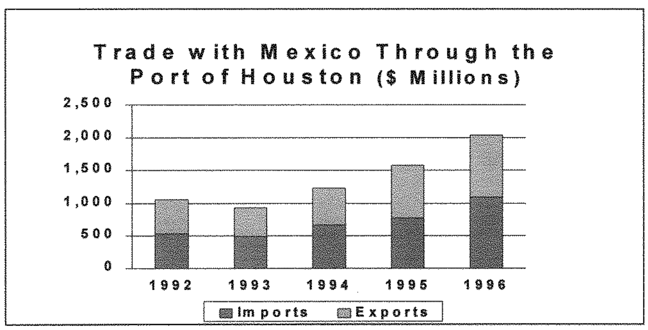
Addendum One

NAFTA: Before & After

	1993	1996	% Change
Houston's Trade with Mexico			
Air Cargo (Kilograms)	7,856,896	9,388,751	19.5%
Sea Trade ($000s)	993,525	2,037,021	105.0%
Houston Metro Exports (EL Series)	1,122,770,056	1,439,790,225	28.2%
Passengers to and from Mexico through IAH			
Air Passengers	1,240,544	1,623,529	30.9%
Houston companies trading with Mexico			
as % of total companies in *International Houston: International Business Directory*	17%	23%	

Sources: U.S. Census Bureau; Port of Houston Authority; ITA, U.S. Dept. of Commerce, Bureau of the Census; City of Houston Dept. of Aviation; Greater Houston Partnership databases

Addendum Two



Addendum Three

HOUSTON'S SEABORNE TRADE WITH MEXICO
1996 ($ Millions)

Top Imports		Top Exports	
Commodity	**Value**	**Commodity**	**Value**
Mineral Fuel, Oil etc	767.81	Mineral Fuel, Oil etc	304.54
Organic Chemicals	127.77	Organic Chemicals	299.87
Vehicles, not Railway	117.30	Cereals	155.31
Iron or Steel Products	35.84	Machinery	54.59
Salt; Sulfur; Earth, Stone	8.46	Misc Grain, Seed, Fruit	39.78
All Others	31.74	All Others	94.02
Total Imports	**1,088.92**	**Total Exports**	**948.11**

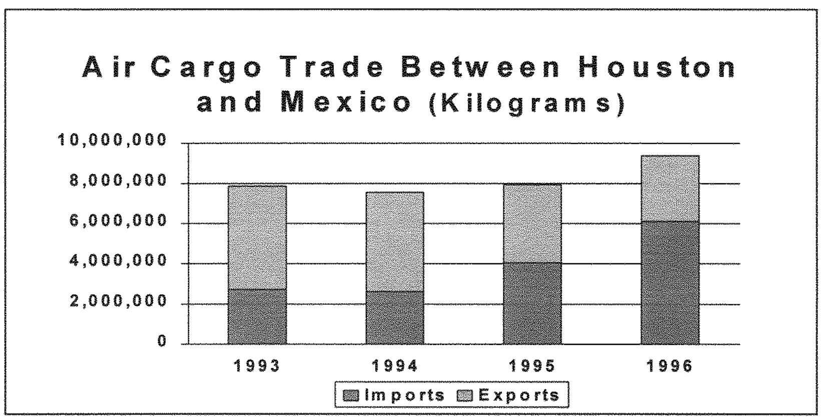
Source: U.S. Dept. of Commerce, Bureau of the Census; Compiled by Summit Information Services

Addendum Four

1996 Houston's Air Cargo Trade with *Mexico* (Kilograms) District of Unlading			
Top Import Commodities to Houston			
HS4	Description	Kilograms	% of Total
9021	Orthopedic appl; artif body pts; hear aid; pts etc	1,677,475	27.55%
0603	Cut flowers & buds for bouquets etc., prepared	650,935	10.69%
8523	Prepared unrecorded media (no film) for sound etc.	594,670	9.77%
0302	Fish, fresh or chilled (no fillets or other meat)	578,681	9.50%
8473	Parts etc for typewriters & other office machines	381,092	6.26%
All Others		2,206,906	36.24%
Total		**6,089,759**	**100%**
Top Export Commodities from Houston			
HS4	Description	Kilograms	% of Total
6212	Bras, girdles, garters etc., knitted etc or not	183,207	5.55%
4404	Hoopwood; split poles; pickets and stakes etc	154,990	4.70%
8471	Automatic data process machines; magn reader etc	127,513	3.87%
8431	Parts for machinery of headings 8425 to 8430	117,857	3.57%
8209	Plts stcks tps etc f tls unmntd sntrd crbds/crmts	102,544	3.11%
All others		2,612,881	79.20%
Total		**3,298,992**	**100%**

Source: U.S. Dept. of Commerce, Bureau of the Census and Summit Information Services

Addendum Five



Statement of Peter diCicco, President, Industrial Union Department of the American Federation of Labor and Congress of Industrial Organizations

I wish to thank the Chairman and members of the Subcommittee for the chance to express the many concerns of U.S. industrial workers about the North American Free Trade Agreement. We believe it has been an abject failure—not just the mild disappointment portrayed in President Clinton's recent assessment. NAFTA is reason enough for Congress to reject the Administration's request for fast-track negotiating authority.

Less than four years ago, I watched with dismay as members of Congress were led to believe that NAFTA would dramatically increase our exports to Mexico, creating new high-tech and well-paid U.S. jobs, while also helping to redress labor and environmental problems through side agreements.

Instead, we have seen the loss of between 420,000 and 600,000 U.S. jobs, based on estimates by the Economic Policy Institute and Public Citizen's Global Trade Watch. We have seen economic and political chaos in Mexico that includes a reduction in average real wages from about $1 an hour to just over 60 cents an hour.

NAFTA helped turn a $1.7 billion U.S. trade surplus with Mexico in 1993 into a $16.2 billion trade deficit in 1996. Real earnings for American workers, meanwhile, have remained stagnant. And those side agreements have proven to be nothing but window dressing—seldom used, impossibly complex and bureaucratic, and without any effective enforcement mechanism.

Back in 1992, many called the opposition of industrial workers "alarmist" and advised us to bid "good riddance" to low-wage, low-skill jobs. But many of those half-million lost jobs were those of workers with good skills and good pay—many of whom now are trying to acquire new skills for jobs that pay far less.

In industry after industry, high tech and low tech, from the New York Harbor to the Gulf Stream waters, corporations are abandoning our shores in droves, enticed by cheap labor and duty-free imports back into the United States.

The evidence is in the list compiled by the U.S. Department of Labor of jobs certifiably lost as a result of NAFTA. Many are in high-tech manufacturing, from aerospace and auto parts to electronics. Of the hundreds of thousands of workers who have qualified for trade adjustment assistance under the NAFTA–TAA program, many were employed by such companies as Hughes Aircraft, Diesel Recon Co., General Electric, Thompson Multi Media, Marshall Electronics, ITT Hancock Engineered, Emerson Electric Co., Black and Decker Power Tools, Teledyne Industries, Allied Signal Equipment, Lukens Medical Corp., Occidental Chemical Corp., Lockheed Martin, Bausch and Lomb, Kenetech Windpower, Collegeville Imagineering, Marconi Technologies, Aquatech, Fairchild Aircraft and Pacific Power and Light.

We're losing good jobs and we're losing good pay. Because employers can threaten workers with plant relocations in low-wage countries like Mexico, workers have lost much of their bargaining power. The result has been a continual downward pressure on U.S. wages. In addition, the threat of plant closures has had a chilling effect on workers' efforts to form unions, according to a study by Cornell University's Kate Bronfenbrenner, who found that 10 percent of union organizers she interviewed in 1996 reported that the employers directly threatened to move to Mexico if the workers voted for a union.

American industrial workers are the most productive in the world and are not afraid of global competition. But we do not work well with one hand tied behind our backs, as is the case when our employers can hold offshore production over our heads—both in reality and as a threat. We should not have to compete on the basis of the lowest wages in the world. If that is the comparative advantage we are trying to gain in the marketplace, we all lose.

Guess Inc. is a case in point. When confronted by charges that it was running sweatshop-like operations in Southern California, and a drive among its workers to join a union, Guess decided to shut down and move to Mexico, Peru, Chile and Asia. NAFTA and other such fast-trade deals encourage this kind of corporate irresponsibility, and our nation is worse for it.

Our world is worse for trade deals that protect the interests of multinational corporations and global financiers without consideration for environmental standards. Look at the U.S.-Mexican border, where lax rules in Mexico have allowed hazardous wastes to seep across the Rio Grande. Drinking water in border communities contain high levels of arsenic contamination, and dangerous ozone pollution in El Paso increased from 58 percent in 1993 to 75 percent in 1995.

Among the record number of imports coming into the United States from Mexico over the past three years are large numbers of unsafe trucks, contaminated food and illegal drugs. NAFTA not only is costing us our livelihoods, but it is endangering our lives.

The problems that NAFTA has created explain why a recent opinion poll by Peter A. Hart Research showed 69 percent of all Americans saying the United States should restrict imports to protect our jobs, while only 19 percent believe that free trade agreements create jobs in the United States. A Business Week/Harris Poll in September showed similar public skepticism over free trade. When asked if the Administration should have fast-track negotiating power, 54 percent of the Business Week/Harris Poll participants said no.

If the American people are against the failed and flawed NAFTA, why is the Administration pushing so hard for fast-track authority to extend it? More importantly, why does it want to close off significant public debate on trade agreements by rushing them through with only an up-or-down vote by Congress?

In my view, the push to railroad these trade deals is coming from multinational corporations and Wall Street investors who are only looking at their bottom lines without seeing the people and their communities that may be run over in the process. The globalization of capital has created a class of international robber barons who roam the world in search of wealth, bound by no sense of allegiance to country or community.

We're all for trade with other nations, and we believe we should negotiate agreements that lower duties and tariffs to allow the movement of goods and services. But we believe these agreements also must address the rules under which nations treat their workers and the environment. Unless we include in the core of our trade agreements enforceable provisions for worker rights and environmental protection, we are setting ourselves up for a race to the bottom—a race that we do not want to win.

Trade agreements offer an opportunity to raise the standards for workers and to protect this Earth from exploitation. And they also offer an opportunity—if they are not being railroaded down a fast track—to raise the level of public discussion about other important issues surrounding trade in the global economy.

I believe we must pursue trade policy that preserves our industrial base, instead of one that promotes the export of American ingenuity and knowhow. By pushing U.S. industry offshore, we are helping Mexico, Chile, China, and other developing nations build export platforms. So what if we can buy cheaper goods if we are, at the same time, puncturing our middle class and exiling millions of American workers to the underclass?

We must not worsen the problems we created with NAFTA by quickly extending that agreement to Chile and other Latin American countries. Congress should deny the Clinton Administration's request for fast-track negotiating authority.

Statement of His Excellency Richard L. Bernal, Ambassador From Jamaica to the United States

Thank you for providing me an opportunity to submit testimony on the impact of NAFTA on the US/Caribbean trade relationship.

I. Introduction

This year marks the 15th anniversary of the address in which Ronald Reagan proposed the Caribbean Basin Initiative (CBI) to strengthen the economic and security relationship between the United States and the countries of the Caribbean Basin. Congress responded to President Reagan's challenge by enacting the Caribbean Basin Economic Recovery Act (PL 98–67) during 1983. Since then, the CBI has stimulated commercial linkages, promoted the development of a thriving private sector in the Caribbean, and created a natural market for thousands of US exporters. In many respects, the CBI has been an unqualified success.

Despite these accomplishments, the CBI is now beginning to show its age as new policies are established that eclipse the US/Caribbean partnership or render the CBI provisions almost meaningless. The enactment of the North American Free Trade Agreement (NAFTA)—although an important first step in the path toward hemispheric trade integration—is one such policy that has inadvertently eroded Caribbean access to the United States. To understand the full scope of the effect of NAFTA on the Caribbean, it is important to first understand the structure of the US/Caribbean Basin partnership.

II. The US/Caribbean Economic Partnership

Although many see the US/Caribbean relationship as altruistic or one-sided, it is truly a mutually beneficial relationship. Statistics on regional trade and investment flows underscore this point.

- Presently, the US/Caribbean commercial relationship supports more than 300,000 jobs in the United States and countless more throughout the Caribbean. During the past decade, the US/Caribbean Basin relationship has created more than 18,000 jobs a year in the United States.
- The Caribbean Basin is in aggregate now the tenth largest export market for the United States, surpassing countries such as France.
- The Caribbean Basin is one of the few regions in the world where US exporters maintain trade surpluses. In 1996, the 11th consecutive year for which the United States recorded a trade surplus with the Caribbean Basin, that surplus surpassed $1.4 billion.
- In 1996, US exports to the region passed $ 15.9 billion, resulting in a 170 percent increase in US exports during the past 11 years. Virtually every state in the union has benefited from this relationship.
- In 1996, US imports from the region reached $ 14.5 billion, completing an 11-year growth rate of nearly 120 percent.
- It is estimated that between 60 to 70 cents of each dollar spent in the Caribbean Basin is spent back in the United States compared with only 10 cents of each dollar spent in Asia.
- When US trading partners are ranked by the US share of their markets, CBI countries claim 12 of the top 20 spots. Jamaica, which in 1995 purchased 75 percent of its imports in the United States, is ranked second and is only surpassed by Canada.

The basis of this healthy and balanced trade relationship is a complementarity between the CBI economies and the US economy. While the US economy is highly industrialized, the CBI countries tend to emphasize more agriculture, raw materials, tourism, and, increasingly, labour-intensive manufacture. These economic patterns are natural catalysts for the trade based-economic growth.

For example, apparel has become Jamaica's leading manufactured export and has grown very rapidly. It has grown because of a complementarity involving the combination of US capital goods and raw materials being produced with Jamaican labour for US companies. The result is the creation of jobs in the textile and shipping sectors both here and in Jamaica. In addition, this integrated transnational process of production draws upon the strength of both economies to manufacture a final product that can be competitive in the US and global market. This equation again adds up to jobs, especially through the preservation of jobs and corporate entities in the Unites States which could not survive by producing goods entirely in the United States.

III. The NAFTA Imbalance

As a result of the NAFTA, the biggest issue facing the Caribbean Basin is the lack of parity of US market access with Mexico. The CBI has provided a good foundation, particularly in the era when aid from the United States is declining. It has been a good strategy of trade, and not aid, which has proved more beneficial in the long run. But the CBI has several built-in limitations.

One problem is that, while it liberalizes 90 percent of the trade categories, the CBI does not liberalize 90 percent of the actual trade flows, primarily because the very goods—such as apparel and footwear—in which the CBI has a comparative advantage are the goods that tend to be restricted by US import laws. The paralyzing effect of these exclusions becomes more noticeable as CBI economies begin to produce products that are not covered by the CBI. In 1996, the annual International Trade Commission survey on the CBI reported that average duties paid for CBI imports rose from 1.9 percent in 1984 to 12.3 percent in 1994. If left unchecked, the current CBI formula will have a declining impact on Caribbean economic development.

In contrast, NAFTA eliminates the duty and quota treatment for these same articles, either immediately or over a phase-out period. Under NAFTA, import duties were immediately removed on the overwhelming majority—approximately 80 percent—of Mexican apparel exports to the United States. The remaining 20 percent benefits from an accelerated implementation of free trade, with annual duty cuts and quota liberalization set to be completed by the year 2000. To be fair, NAFTA also phases out the duties on the products for which the CBI countries already enjoy duty free treatment.

But the result is far from even. Mexico gains parity with the Caribbean countries for CBI-covered products, establishing a level playing field for those items on which Mexican and Caribbean exporters face no duty. But on the products excluded from the CBI, such as textile and apparel products, Mexico gains access to the US market, exceeding that granted to the Caribbean countries. This tilts the playing field in Mexico's favor, and gives Mexican exporters a distinct advantage over Caribbean exporters. When combined with Mexico's access to cheap energy, lower transport costs, greater economies of scale, and low wage rates, this advantage becomes quite substantial.

IV. NAFTA'S IMPACT ON THE CARIBBEAN BASIN

Broadly speaking, NAFTA's implementation—and advantages over the CBI—poses clear risks for the US/CBI partnership. The elimination of quotas and the phase-out of tariffs on Mexican products removes the advantage enjoyed by CBI exports to the US market, diverting trade flows from CBI countries to Mexico. Since the NAFTA was implemented, there has already been a measurable diversion of trade from the CBI to Mexico. Before NAFTA was implemented, the growth rate of US apparel imports from Mexico and the CBI region were on par. Three years after the NAFTA was implemented, Mexican apparel import growth rates have consistently outpaced Caribbean growth rates by a 3 to 1 margin. As this trend continues, Caribbean market share in the United States will be consumed by Mexican suppliers.

Another consequence of NAFTA's implementation has been the diversion of new investment. One of the primary indicators has been the fact that in the last 3 years there has been a pause in investment in the region, as investors first waited to evaluate the NAFTA provisions and then established new operating facilities in Mexico, instead of in the Caribbean. This trend, which is now being fully realized, was anticipated by the US International Trade Commission, which reported in 1992 that "NAFTA will introduce incentives that will tend to favor apparel investment shifts away from the CBERA countries to Mexico."

As existing investors begin to source their products out of Mexico, others are rushing to transfer or close existing productive capacity—particularly in the "foot-loose" apparel industries which can easily be relocated—to take advantage of Mexico's market access. In many Caribbean Basin countries, NAFTA directly reverses past successes of the CBI program, effectively turning back the clock of Caribbean development. Employment is hit particularly hard by this trend, as manufacturers close factories and lay off employees. According to estimates by the Caribbean Textiles and Apparel Institute, more than 150 apparel plants closed in the Caribbean, resulting in the loss of 123,000 jobs during 1995 and 1996. This trend is particularly damaging to women, who often look to the textile and apparel sector for their livelihood.

An erosion of export access to the United States will eventually translate directly into a contraction of economic activity in the CBI region. Such a contraction would lower regional incomes, and, ultimately, the demand for imports from the United States. In such a scenario, US exports of goods and services to the CBI would decline while regional instability—fostered by a decrease in economic opportunities—would rise. Judging from past patterns, the resulting unemployment in the United States would be met with an increase in immigration from displaced Caribbean workers and a rise in narcotics trafficking.

V. CARIBBEAN PARITY AS AN IMMEDIATE REMEDY

While the long term solution is to determine how to fully integrate Caribbean countries—and the specific needs of their smaller economies—into the NAFTA or a Free Trade Area of the Americas (FTAA), a short term solution calls for the leveling of the playing field between Mexico and the Caribbean countries. In Bridgetown earlier this year, President Clinton renewed and unequivocally reconfirmed his strong commitment to seek enactment of a Caribbean Basin Trade Enhancement package during 1997.

Over the past few months, and indeed, over the past five years, Congress and the Administration have been exploring various Caribbean parity packages to re-impose balance between Mexican and Caribbean access to the US market. We were disappointed that the package was not included in the budget legislation enacted last month. There is now some hope that parity legislation could be approved by the end of the year. As Congress moves ahead, it should ensure that the legislation on which they act encompasses several key principles:

First, the legislation must cover all products currently excluded from the CBI. As the Caribbean economies liberalize, it becomes increasingly difficult to erect artificial barriers between product categories. Improving market access for only certain textile and apparel products would have a limited effect, and would retain the anomalies that encourage unbalanced economic growth. Enacting a comprehensive bill, however, is both economically more feasible and symbolically more consistent with the notion of free and open trade.

Second, the legislation must serve as a gateway to the Free Trade Area for the Americas. One of the implicit goals of parity is to provide Caribbean Basin countries an opportunity to complete the trade liberalization and economic reform steps necessary for accession to the FTAA. While some countries—such as Jamaica—are now ready to negotiate either a free trade agreement with the United States or accession to a NAFTA, others may need a longer period. The Caribbean trade enhancement proposal should provide that transitional period, without locking CBI countries into a perpetual state where their trade posture is being slowly eroded.

Third, any Caribbean trade enhancement proposal must be of a sufficiently long duration to provide credibility and certainty, and to help re-establish confidence lost in past years. It is now clear that this legislation will require Caribbean countries to undertake certain obligations and implement specific measures in order to access the full benefits. Such reciprocity makes sense, but only if the reciprocal commitments are maintained in force indefinitely.

Fourth, on a related note, the legislation must not impose entrance requirements that are insurmountable. The 24 nations of the Caribbean Basin represent diverse economies that are at different stages of liberalization. Ideally, the legislation will not establish a new set of criteria by which countries can become eligible for the benefits, but rather link the enhanced benefits to more rigorous application of the existing CBI program criteria. In this way, countries can fully pursue trade liberalization without being harmed by a break in market access or the sudden resurgence of an unbalanced playing field.

VI. Conclusion

Countless studies have shown that strong regional economic links are crucial, not only in creating economic opportunities throughout the United States and the Caribbean Basin, but also in supporting stable and mutual beneficial security relationships. In the dozen years since it has been implemented, the CBI has provided a key framework of economic development for the Caribbean, and has stimulated sound US/Caribbean commercial relations.

Three years and six months after the enactment of NAFTA, it now becomes imperative to update the CBI framework to rebalance Caribbean and Mexican access to the US market. Swift enactment of Caribbean parity legislation will restore that balance while benefiting the thousands of US and Caribbean workers who depend on this regional trade. Moreover, as a transitional measure, parity will help Caribbean countries prepare themselves to undertake the full disciplines of hemispheric trade liberalization.

Passage of Caribbean parity legislation will simultaneously advance the causes of trade liberalization, economic growth, and regional security. Congress should enact this proposal as the earliest possible date.

Statement of Robert R. Miller, President; Christopher M. Bates, Vice President, International Operations; and Lynn E. Christensen, Assistant Director, International Programs, Motor & Equipment Manufacturers Association

The Motor & Equipment Manufacturers Association (MEMA) is pleased to submit this statement on the president's study on the operations and effects of the North American Free Trade Agreement (NAFTA).

Motor & Equipment Manufacturers Association (MEMA), founded in 1904, exclusively represents U.S. *manufacturers* of motor vehicle parts, service tools and equipment, and automotive chemicals throughout the United States. MEMA represents both suppliers of original equipment for all classes of motor vehicles, as well as replacement parts and related products to all major service and distribution channels in our industry. MEMA is headquartered in Research Triangle Park, North Carolina, with supporting offices in Washington, D.C.; Brussels, Belgium; Sao Paulo, Brazil; Yokohama, Japan; and Mexico City, Mexico.

MEMA played a central advisory role to the U.S. Department of Commerce and Office of the U.S. Trade Representative during the negotiation of the North American Free Trade Agreement (NAFTA). The Department of Transportation has established a NAFTA Automotive Standards Council on which MEMA and one of its product line groups have been active.

MEMA strongly supports the NAFTA and the continued engagement of the United States in promoting trade and investment liberalization in our hemisphere and globally. The NAFTA Agreement has benefitted the U.S. economy and motor vehicle products industry, contributing to net employment and output growth. It also has helped accelerate the economic recovery of Mexico and has sustained trade liberalization following the December 1994 financial crisis in that country.

The Canadian and U.S. motor vehicle and parts industries have continued to prosper under the NAFTA and Mexico's auto sector is rebounding steadily since the December 1994 peso devaluation. Since the NAFTA went into effect, production of motor vehicles grew 8% in the United States and 7% in Canada. Motor vehicle production in Mexico hit a new peak in 1996 after decreasing in 1995. Employment in vehicle assembly and auto parts manufacturing has shown double-digit growth in the U.S., is rising after falling initially in Mexico, and has not lost ground in Canada. U.S. sales of cars and trucks rose during the 1993–1996 period, with trucks recording a 15% growth rate during this period (Attachment 1).

MEMA's objectives in the NAFTA were to: 1) eliminate Mexican tariffs on motor vehicles and parts over a 10-year period; 2) phase out non-tariff barriers, such as local content and trade balancing requirements in Mexico; 3) establish strong NAFTA rules of origin and modify duty drawback procedures to discourage assembly of vehicles or parts in Mexico for export using predominantly non-North American materials; and 4) liberalize Mexican investment restrictions affecting the automotive sector.

We believe that each of these goals is being achieved according to the time tables set forth in the NAFTA agreement.

Tariffs: Prior to NAFTA, Mexican tariffs on most automotive products ranged from 10–20% ad valorem. With NAFTA in effect, these tariffs as of January 1, 1998 will have been reduced to between zero and 10% ad valorem, reducing the duty penalty on U.S. exports by at least half from pre-NAFTA levels.

Non-Tariff Measures: NAFTA imposed an effective freeze in Mexico's local content requirements and launched a process of steady liberalization of trade balancing requirements. Beginning in 1998, Mexico's commercial vehicle industry decree will be terminated, removing the primary non-tariff barrier in that segment of our industry. NAFTA also calls for faster removal of remaining non-tariff measures over the next five years, with the objective of totally free trade by January 2003.

Rules of Origin/Duty Drawback: NAFTA established a minimum 50% value-content rule (with higher requirements following a brief transition period) for automotive trade to ensure that the benefits, like the risks from increased competition, due to trade liberalization accrue principally to North American producers. Given Mexico's higher MFN tariffs toward non-NAFTA partners, the United States also insisted on changes in duty drawback regulations to reduce incentives for low value-added assembly operations in, and exports from, Mexico using parts and materials purchased from outside North America. The result is that average U.S. content in products assembled in Mexican maquiladora plants has remained high since the NAFTA was put in place.

Investment Liberalization: Prior to NAFTA, Mexico prevented foreign companies from taking a majority share of local auto parts suppliers and limited the rights of maquiladora plants to sell their products into Mexico's domestic market. NAFTA is well on the way to removing these restrictions, allowing for more commercially sensible integration of U.S. and Mexican production facilities.

Collectively, the NAFTA provisions have supported U.S. automotive suppliers' efforts to remain competitive vis-a-vis producers outside of North America, without leading to a massive shift in U.S. investment toward Mexico at the expense of the U.S. manufacturing base. In fact, U.S. Big Three vehicle assemblers invested approximately $40 billion in the United States between 1993 and 1996, nearly 13 times their $2.9 billion investments in Mexico during this period. Statistics are not yet available for U.S. suppliers' total investments during this period. However, a review of industry journals suggests that a similar North American investment pattern has prevailed in the U.S. automotive parts industry during the initial NAFTA implementation period.

Despite the peso devaluation since December 1994, U.S. exports of automotive products to Mexico have increased by $850 million over pre-NAFTA levels. Total exports in the automotive parts industry showed tremendous growth (50%) between 1991 and 1994, dipped 12% from 1994 to 1995, and recovered modestly, up 5%, between 1995 and 1996. Exports continue to flourish in 1997, showing a 13% increase between January and June, 1997, compared with the same period in 1996.

The U.S. has not lost jobs in the auto industry. Employment in both the motor parts industry and in the assembly of vehicles has increased since 1993 (Attachment 2).

NAFTA's success has not meant that there have been no complications. Implementing the NAFTA has proven to be more difficult than predicted. Two examples which affect the automotive industry are the trucking dispute along the U.S.-Mexico border and Mexico's implementation of its new consumer-product labeling regulation. The NAFTA has proved, however, to be instrumental in helping to resolve these and other issues. There has been much greater transparency in dispute settlement proceedings and Mexico's government agencies have been more accessible and responsive to U.S. companies and industry groups in cases where bilateral issues have arisen. In several practical ways, NAFTA has strengthened the ability of Mexican government authorities to resist domestic protectionist pressures during its most severe economic downturn since the early 1980s.

MEMA believes that the principal short-term goals of the NAFTA for our industry have been met. We expect that the more comprehensive liberalization steps scheduled under the Agreement for the next 5–6 years will benefit our members, their employees, and the U.S. economy as a whole to an even greater extent.

The U.S. automotive industry continues to attract substantial domestic and foreign investment, based on our country's renewed position as the most competitive and technologically dynamic manufacturing location in the world. Industry production and employment are higher than before NAFTA was put in place, despite an overall recent deterioration in the U.S. and automotive sector's trade balance with Mexico and the world. The deterioration principally reflects stronger economic growth in the U.S. compared to its main trading partners, and the effects of a stronger dollar against major world currencies. In fact, U.S. exports to Mexico in particular have grown despite two years of depressed economic conditions in that country, and should expand further as Mexico's domestic market continues to recover this year and beyond.

In summary, the NAFTA has been an important positive element in our industry's efforts to maintain international competitiveness and secure improved long-term access to Mexico's large domestic market for motor vehicles and related equipment.

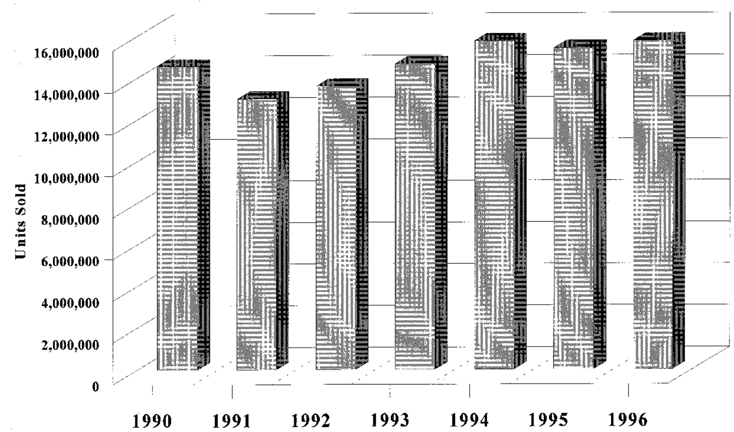
Thank you for your consideration of our views.

Submitted by:

Robert R. Miller, President
Christopher M. Bates, Vice President, International Operations
Lynn E. Christensen, Associate Director, International Programs
Motor & Equipment Manufacturers Association
10 Laboratory Drive
Research Triangle Park, NC 27709

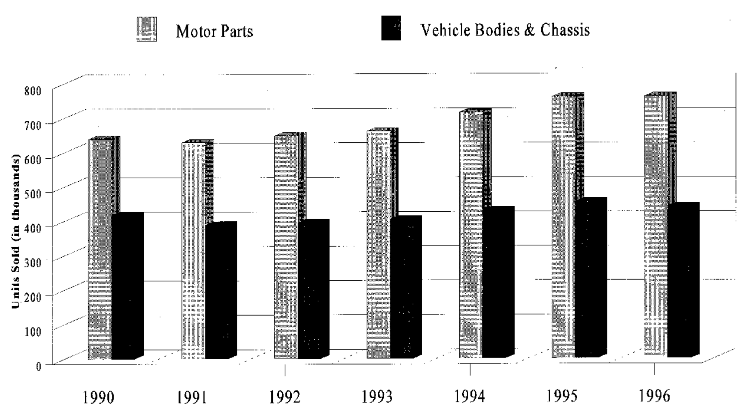
Attachment 1

U.S. Retail Sales of Motor Vehicles



Attachment 2

U.S. Automotive Industry Employment



Statement of Chris Koelfgen, President, National Association of Foreign-Trade Zones

Mr. Chairman and Members of the Subcommittee:

On behalf of the National Association of Foreign-Trade Zones, thank you for the opportunity to present this statement to the Subcommittee concerning the operation and effects of the North American Free Trade Agreement (NAFTA).

The NAFTZ is a non-profit trade association representing over 600 members, including grantees, operators, users and service providers of U.S. foreign-trade zones. Today there are more than 200 approved zone projects located in 49 states and Puerto Rico. The total value of merchandise received at foreign-trade zones annually exceeds $140 billion. Over 2,800 firms utilize foreign-trade zones and employment at facilities operating under FTZ status is over 300,000. The NAFTZ provides education and leadership in the use of the FTZ program to generate U.S.-based economic activity by enhancing global competitiveness.

The National Association of Foreign-Trade Zones (NAFTZ) supported the adoption of the North American Free Trade Agreement (NAFTA). However, the implementation of the agreement, as embodied in the interim regulations issued by the U.S. Treasury Department under *Implementation of Duty Deferral Program Provisions,* 61 Fed. Reg. 2908 (Jan. 30, 1996), has had an unintended negative impact on the Foreign-Trade Zones Program.

For all shipments of manufactured merchandise from a zone which are destined for Canada (and Mexico beginning in 2001), foreign-trade zone users are now required to make a U.S. Customs entry and pay a Merchandise Processing Fee in addition to filing the export documents which were formerly required. The requirement for the filing of a Customs entry on exported merchandise is the result of efforts by the U.S. Treasury Department to develop a means to assess antidumping/countervailing duties (AD/CVD) on a limited amount of applicable merchandise admitted to a zone, which is manufactured into a new product and subsequently exported to a NAFTA country. Prior to this U.S. Treasury Department initiative, no Customs entry in addition to the appropriate export documentation was required nor were there Merchandise Processing Fees assessed on export transactions.

As a result of this requirement, zone users are now assessed a separate Merchandise Processing Fee (MPF) for each NAFTA entry for export. This requirement alone has cost individual FTZ users as much as $25,000 annually in Merchandise Processing Fees, as well as additional costs for brokerage fees, administrative costs and related expenses. Particularly for the many small and medium-sized companies participating in international trade and utilizing U.S. foreign-trade zones, this cost comes at the expense of additional jobs and further investment. For FTZ users who do not utilize weekly entry procedures, the added costs of the NAFTA procedure could be significantly more. When this procedure is extended to Mexico in 2001 and potentially other countries in the future, the impact will multiply accordingly.

We do not believe the aforementioned results were intended by NAFTA or U.S. law. The payment of a MPF in this situation has clearly placed U.S. producers at a competitive disadvantage when compared with Canadian and Mexican producers. For example, U.S. companies purchasing Canadian origin goods are not subjected to an MPF. However, a U.S. company selling the same article to a Canadian company (produced by a U.S. producer in a FTZ) would be subjected to an MPF. As a result, the U.S. produced goods are assessed an added cost thus making them less competitive.

The National Association of Foreign-Trade Zones seeks Congressional action to correct the Treasury Department's misinterpretation of this provision of NAFTA and misapplication of the law with respect to collection of a Merchandise Processing Fee on exports from a U.S. foreign-trade zone to other NAFTA countries.

Sincerely,

CHRIS KOELFGEN
President

Statement on Behalf of National Housewares Manufacturers Association

I. Introduction

These comments concerning technical barriers to trade in Mexico are submitted on behalf of the National Housewares Manufacturers Association in response to the August 13, 1997, advisory (TR–14) by which Congressman Philip M. Crane, Chairman, Subcommittee on Trade of the Committee on Ways and Means, announced the rescheduling of the hearing on the President's comprehensive study of the operation and effects of the North American Free trade Agreement (NAFTA).

The NHMA is a U.S. association of over 2,300 U.S. manufacturers and exclusive distributors of houseswares products. The NHMA membership accounts for approximately 2.3 billion dollars in sales worldwide. Members products include kitchen electrics, personal electrics, cook and bakeware, outdoor products, bath, laundry and closet products, tableware and serving ware, hardware, gadgets, furniture, decorative articles, clocks, cleaning articles, and pet supplies.

A large number of NHMA members export or seek to export housewares products throughout North America, including Mexico. They have confronted difficulties in that regard flowing from Mexico's product standards and certification procedures, which in practice represent technical barriers to trade. Those problems are not addressed in the *Study on the Operation and Effect of the North American Free Trade Agreement (NAFTA)* presented to the Congress. Accordingly, NHMA submits these comments to identify its concerns, of which Mexico and U.S. authorities have been made aware.

The NHMA believes the standards-related concerns outlined below distort trade between the U.S. and Mexico, remain very real and go to the heart of Mexico's obligations under NAFTA to eliminate trade barriers and discrimination against imports from the other NAFTA parties. See, e.g., NAFTA Article 301 (each party shall accord national treatment to the goods of another Party in accordance with GATT), standards-related measures, each Party shall accord national treatment to goods of another Party); 904:4 (no party may apply any standards-related measure with the effect of creating an unnecessary obstacle to trade between the Parties).

Although the Mexican government has been willing to receive comments and meet on NHMA's concerns, and has begun to propose certain, limited alternatives, there is presently no plan to eliminate standards-related discrimination against U.S. imports. Moreover, whereas some hope ought to lie in Mexico's progress toward permitting U.S. laboratories to obtain accreditation as certifying bodies in Mexico [see President's Report at 61 (''Elimination of Non-Tariff Barriers'']: Mexico's rules will still control any newly certified laboratories; there are no assurances that any of the concerns discussed below will be eliminated; and Mexico is interpreting related obligation that are to take effect in 1998 as only requiring it to begin talks with its NAFTA partners at that time.

II. Mexican Standards, Certification and Labeling Requirments

While the NHMA has concerns regarding various Mexican standards and labeling requirements, the comments provided in this submission are directed to requirements contained in Mexican standard NOM–EM–004–1994 (''NOM–004''). NOM–004 establishes the characteristics of the official ''countersign'' (or symbol) which is required to be placed on all products sold in Mexico to demonstrate that a particular product is in compliance with applicable standards. Among other things, the countersign must include a unique registration number which is obtained by a company, domestic manufacturer, importer, or provider of services, upon certification that the product has complied with all applicable standards.

On its face, NOM–004 requirements appear to apply equally to all products whether imported or domestically produced. In practice, the application of NOM–004 results inorted products. Generally, the difference in treatment takes the forms described following.

A. Foreign producers and exporters may not obtain their own certification.

Foreign producers and exporters must rely on Mexican importers for the certification process. Each time a foreign producer or exporters changes importers or acquires a new importer, the certification process must be repeated. Hence, if the producer exports directly to 100 customers in Mexico, a certification must be obtained for each customer. It costs a foreign producer approximately $800 dollars for each product certification obtained by an importer.

Domestic (Mexican) producers, in contrast, are permitted to obtain their own certifications and, therefore, may use a single certification for multiple customers.

B. Certifications are not transferable.

An importer that has obtained a certification for a particular product may not transfer that certification to another importer. As a result, each importer must obtain its own certification even though the product may have received prior certification. In contrast, once a domestic producer obtains a certification, it may use that single certification for all purposes, including shipping to a new or different customer.

C. Certifications must be renewed on an annual basis.

Each certification must be renewed annually regardless of whether the product has undergone any changes. This renewal requirement, although applicable to domestic and imported products alike, multiplies annually the burden of multiple registration described above.

D. Certification must be obtained for each single product.

The standard does not provide for single certifications for families of products, i.e. products whose differences may be color, or accessories, and, thus, multiplies further the registration burden.

III. ANALYSIS AND CONCLUSION

The difference in treatment described above has a distortive effect on trade between the United States and Mexico producers and exporters that are not borne by domestic producers. It cost a foreign producer approximately $800 dollars for each product certification obtained by an importer. By comparison, certification costs for a domestic producer selling the same product lines to the same number of customers are not multiplied by the number of its customers.

Similarly, while the requirement that a certification be obtained for each product applies to both imported and domestic products, in practice, this requirement reduces U.S. producers competitiveness in the Mexican market. U.S. producers are more likely than Mexican producers to produce and market various models of the same product. The requirement that a certification be obtained for each model of the same product discourages shipments of different models and thereby restricts marketing strategies based on product diversification and breadth of product lines.

Thus, for producers/exporters of multiple products, certification related costs are multiplied first by the number of products shipped to Mexico, then by the number of importers involved. Costs rapidly mount. As a result of the aforementioned requirements, some NHMA members have limited exports to Mexico and others have foregone shipments to Mexico altogether. The NOM requirements are particularly onerous for small and medium sized businesses.

In sum, it is important that a reader of the President's report keep in mind that the cited standard-related requirements result in less favorable conditions of competition for other NAFTA Parties' products, which is inconsistent with Mexico's obligations under NAFTA, e.g., Articles 301, 309 and 904. Congressional support of Administrative efforts to remedy this situation will be welcomed by the membership.

Statement of PPG Industries, Inc.

INTRODUCTION

These comments are submitted on behalf of PPG Industries Inc. in response to the August 13, 1997, advisory (TR–14) by which Congressman Philip M. Crane, Chairman, Subcommittee on Trade of the Committee on Ways and Means, announced the rescheduling of the hearing on the President's comprehensive study of the operation and effects of the North American Free trade Agreement (NAFTA).

PPG is a U.S. producer of flat glass, fiberglass, chemical, and coating and resin products classifiable under the following headings of the Harmonized Tariff Schedules of the United States (HTS):

- Flat Glass: HTS 7005, 7006, 7007, 7008, 7009
- Fiber glass: HTS 7019
- Coatings and Resins: HTS 3208, 3209, 3210, 3214, 3906, 3907, 3909
- Chemicals: 2801, 2808, 2811, 2815, 2827, 2828, 2836, 2902, 2903, 2904, 2905, 2907, 2909, 2915, 2916, 2918, 2920, 2921, 3402, 3814, 3904.

Essentially, for PPG the North American Free Trade Agreement (NAFTA) has been a major negative factor for its flat glass business, although a very minor, positive influence for its other three businesses.

II. MEXICO: FLAT GLASS

The President's study of the operation and effects of the NAFTA does not address the written exchange of letters between the then-U.S. Trade Representative, Michael Kantor, and his counterpart in Mexico, Jaime Serra Puche, then head of SECOFI,[1] that established the prospect of Mexico's accelerating its elimination of tariffs on flat glass categories. The nonfulfillment of that side agreement has had a severe adverse impact upon PPG.

Prior to the NAFTA's ratification and implementation by the Congress, PPG supported the concept of the NAFTA and lobbied enthusiastically on the Hill for its implementation based on a U.S.-Mexico exchange of letters on November 3, 1993. The letters provided that, within 120 days after the effective date of the NAFTA, the Parties would negotiate accelerated reduction of tariffs on specific products on which Mexico retained higher tariffs than the United States. The products identified as specific targets for acceleration were wine, brandy, *flat glass*, home appliances and bedding components. *Message From the President Transmitting North American Free Trade Agreement, Supplemental Agreements and Additional Documents*, H.R. Doc. 160 at 140–142, 103d Cong. (November 4, 1993). Highlighting the letters' direct link to and, indeed, incorporation with the NAFTA agreement[2] was their inclusion in the House Report by which the President transmitted the NAFTA package to Congress. *Id.*[3]

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[1] SECOFI is Mexico's "Secretaria de Comercio y Fomento Industrial."

[2] Chairman Crane stated in announcing these hearings that "[a]n accurate assessment of the effects of the Agreement on the U.S. economy and U.S. interests requires that, to the extent possible, the effects of the NAFTA are distinguished from the effects of other economic events and trends which have occurred independently of this historic trade agreement." Advisory No. TR–14. Clearly, events surrounding and following the exchange of letters are among "the effects of the NAFTA," as distinguished from "the effects of other economic events and trends which have occurred independently."

[3] The exchange of letters identified U.S. producers of wine, brandy, *flat glass*, home appliances and bedding components as the ones to which the U.S. administration was "particularly sympathetic." *Id.* Adding dry beans, cream cheese and potatoes to the list of products that would be given priority in the acceleration negotiations, the Statement of Administrative Action that accompanied NAFTA explained:

> In exercising the authority provided under section 201(b) to accelerate the staging of tariff reductions, the Administration will, as a matter of priority, consider requests from interested private sector groups. The administration will give special priority to negotiating the acceleration of tariff reductions for products where the Canadian or Mexican duty is substantially higher than the U.S. tariff, such as dry beans, bedding components, cream cheese, *flat glass*, major household appliances, potatoes and wine.

Message From the President Transmitting North American Free Trade Agreement, Texts of Agreement, Implementing Bill, Statement of Administrative Action and Required Supporting Statements, Supplemental Agreements and Additional Documents, H.R. Doc. 103–159, Vol. 1 at 480, 103d Cong. (November 4, 1993) (emphasis added).

The prospect that Mexico's tariffs on flat glass would be eliminated faster than the rate set out in the NAFTA schedules has not been fulfilled. Four years later, the flat glass industry is still waiting for promised relief from Mexican tariff impediments, as well as non-tariff barriers, which virtually prohibit the sale of U.S. flat glass products in that country, while the gratuitous U.S. zero tariff rates permit Mexican flat glass products to penetrate the U.S. market at will.[4] Although the USTR identified the specific products for which accelerated tariff elimination is necessary,[5] the Mexican Government for years remained unwilling to participate meaningfully in the exercise.

Then, when the first round of the acceleration exercise recently yielded results, none of the petitioned flat glass categories was among those on which Mexico agreed to accelerate tariff removal.[6] Quite the contrary, several of the priority acceleration categories, including three float glass categories under harmonized tariff heading 7005, were the very ones on which the Government of Mexico recently increased tariffs above current NAFTA levels in retaliation for the U.S. Government's increase of tariffs on broom corn brooms from Mexico as part of an escape clause action under sections 201 et seq. of the Trade Act of 1974.[7] Mexico has returned tariffs on the clear float glass categories to the pre-NAFTA level of 20%, whereas the current, 1997 rate, a reduction of two percentage points per year since NAFTA's implementation, was to have been 12%. Thus, not only has there been no acceleration of Mexico's removal of tariffs on flat glass products, even the staged reductions scheduled under the NAFTA have been nullified for these three subheadings.

In practical terms, PPG has had to take a minority position in a small Mexican automotive glass producer to meet its commitments to local customers in Mexico, commitments which could have been fulfilled through exports from its U.S. glass plants had the NAFTA provided a level playing field as advertised.

PPG will not support future trade initiatives based on "promises," written or otherwise, of "future" or "accelerated" elimination of tariffs and/or non-tariff barriers to U.S. origin products and services by countries with competitive and protected sectoral industries. The lesson of the NAFTA is clear: if tariff/non-tariff parity and elimination of trade distortive measures are not achieved up front during actual treaty negotiation, they are not likely to be accomplished any time soon thereafter.

With regard to the notion that the NAFTA protected U.S. industry during Mexico's recent mismanagement of its economy and the resulting peso crisis, PPG's view is that this very appropriate bailout by the United States nonetheless represented twenty billion dollars worth of leverage which Washington failed to use to spur redress of the inequities of the NAFTA for the benefit of American industry. In this sense, then, it was a wasted opportunity which we believe Mexico and most other nations would not have hesitated to exploit had the situation been reversed.

III. MEXICO: COATINGS/RESINS, CHEMICALS AND FIBER GLASS

Because the dictates of the major global customers and markets for ouG, we have not been, and are not likely to be in the future, major exporters of these product lines. Hence, the NAFTA has at best provided only modest incentive for increased exports of PPG coatings, chemicals and fiber glass products to Mexico. PPG has recently built new coatings and silicas plants in Mexico, primarily to serve that market.

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[4] The tariff disparity in the NAFTA schedules, which the exchange of letters and statement of administrative action envisioned correcting, included a Mexican tariff of 20% to be phased out over ten years for the Mexican categories representing the highest volume of flat glass imports from the United States, and U.S. tariffs immediately eliminated on virtually all of the flat glass volume from Mexico.

[5] *Implementation of the Accelerated Tariff Elimination Provision of the North American Free Trade Agreement*, 58 Fed. Reg. 68,186 (USTR) (December 23, 1993). In that context, PPG, along with other U.S. producers of flat glass products (Guardian Industries, and AFG Industries), identified numerous subheadings of Mexican tariff headings 7003 through 7009 for which accelerated tariff elimination is requested. *Request for Comment on Articles To be Considered for Accelerated Tariff Elimination Under the North American Free Trade Agreement (NAFTA)*, 59 Fed. Reg. 26,686 (USTR) (May 23, 1994).

[6] *See Implementation of the First Round of Accelerated Tariff Eliminations Under Provisions of the North American Free Trade Agreement* (USTR), 62 Fed. Reg. 25,989 (May 12, 1997).

[7] Notice of the products on which Mexico was raising tariff rates in retaliation for the U.S. broomcorn broom action appears at Mexico's *Diario Oficial*, December 12, 1996, at (Primera Seccion) 15. The categories on which tariffs were increased include Mexico tariff subheadings 7005.29.02 (clear float glass with a thickness less than or equal to 6mm), 7005.29.03 (clear float glass with a thickness greater than 6mm) and 7005.29.99 (other clear float glass).

IV. CONCLUSION

The President's report on NAFTA does not mention the failure to date of the exchange of letters on tariff acceleration and the adverse impact upon U.S. industry. This failure, coupled with the return of Mexico's tariffs on clear float glass categories to pre-NAFTA levels, cause the U.S. flat glass industry to be closed out of Mexico while Mexican producers enjoy free access to the U.S. market.

PPG is grateful for this opportunity to express its views on the Report and stands ready to participate in further discussion if deemed necessary.

Statement of Martin Abel, PROMAR International, Alexandria, Virginia

Mr. Chairman and Members of the Committee, I am Martin Abel, executive vice president of the consulting firm PROMAR International in Alexandria, Va. Earlier this year, I was asked to study the U.S. experience with agricultural trade with Canada and Mexico under the North American Free Trade Agreement (NAFTA). The work was sponsored by more than two dozen organizations and companies representing a broad cross-section of US agricultural interests involved in producing, and marketing agricultural and food products.

That effort confirmed that, on balance, US agriculture has benefited from NAFTA.

This finding should not be surprising. Whenever foreign trade barriers for US agricultural products fall, efficient US agricultural organizations readily exploit opportunities generated by the consequent comparative advantage in international markets.

US agricultural trade (exports and imports) with Mexico and Canada has grown markedly under NAFTA, and this growth has been associated with trade liberalizing measures. In the case of Canada, the US-Canadian Free Trade Agreement (FTA) preceded NAFTA and resulted in trade expansion prior to NAFTA going into effect on January 1, 1994.

Canada and Mexico are the second and third largest individual country markets, respectively, for US agricultural products, after Japan. For the land-based agricultural products covered in this report, the US exported over $6.4 billion to Canada and $5.0 billion to Mexico in 1996.

In the case of Mexico, both US exports and imports have increased, and growth has accelerated under NAFTA. The average annual growth for US agricultural exports was $320 million in the pre-NAFTA period (1990–93), but $530 million in the 1994–96 period under NAFTA Furthermore, the US has had a positive and growing net trade balance with Mexico, except in 1995 when the peso devaluation caused a recession in Mexico. Even then, trade recovered markedly in 1996. The US agricultural net trade balance was substantially higher under NAFTA ($605 million a year) than in the pre-NAFTA period ($530 million a year). Equally important, the US share of Mexico's total agricultural imports has increased markedly under NAFTA, growing from 69 percent in 1993 to 78 percent in 1996.

Trade with Canada has also increased starting with the liberalization that occurred under the FTA. For example, US agriculture exports increased at an annual rate of $385 million in the 1990–93 period under the FTA. Annual growth was $100 million under NAFTA. And, the US has maintained a positive trade balance with Canada except in 1996. The positive US agricultural trade balance averaged about $450–$500 million a year in the 1993–95 period, that covers parts of the pre-NAFTA and NAFTA periods, before turning negative in 1996. The US share of total Canadian agricultural imports increased under the FTA and has averaged 61% under NAFTA, with the share for many US products being higher.

Overall, NAFTA has been a significant net gain for US agriculture. US agricultural trade with Canada and Mexico has increased, and the US has generally had a positive trade balance with both countries. Still, there are important agriculture trade issues between the US and its NAFTA trading partners and these need to be addressed.

Some trade issues remain difficult. They include access to the Canadian dairy and poultry market, grain trade between the US and Canada, access of US feeder cattle to Canada, and imports of winter vegetables from Mexico. However, none of these issues was caused by NAFTA.

The benefits that US agriculture has reaped from NAFTA and some of the outstanding trade issues demonstrate the importance of the US moving quickly to push for further trade liberalization on both a bilateral and a multilateral basis.

The sponsors of this report feel that further trade liberalization will benefit US agriculture and that speedy action along these lines will require the approval soon of fast track negotiating authority.

With this statement, I am submitting a copy of the full analysis and ask that it be made a part of the record.

The PROMAR study was sponsored by the Animal Crop Protection Association, American Farm Bureau Federation, American Meat Institute, American Soybean Association, Animal Health Institute, Bunge Corporation, Cargill, Incorporated, ConAgra, Inc., Continental Grain Company, Farmland Industries, Inc., Grocery Manufacturers Association, International Dairy Foods Association, Louis Dreyfuss, Inc., National Association of Plant Patent Owners, National Cattlemen's Beef Association, National Corn Growers Association, National Grain and Feed Association, National Pork Producers Council, Philip Morris/Kraft, Ralston Purina International, The Fertilizer Institute, US Chamber of Commerce, US Dairy Export Council and US Wheat Associates.

[The analysis is being retained in the Committee files.]

Statement of Public Citizen's Global Trade Watch

QUESTIONS AND ANSWERS ABOUT FAST TRACK NEGOTIATING AUTHORITY

What Is Fast Track Negotiating Authority?

Fast Track is a set of rules mostly about how Congress will consider the domestic legislation implementing trade agreements, not about the authority to negotiate trade deals itself. The term "fast track" refers to several related congressional procedures used for certain international trade and investment agreements.

Fast Track is one version of how negotiating authority is delegated from the Legislative branch (which has exclusive constitutional authority over regulation of foreign commerce) to the Executive branch. Fast Track allows the Executive branch to conduct trade negotiations under a guarantee that whatever agreement is concluded, Congress will consider it with no amendments allowed and limited debate. Instituted by President Nixon in 1973, this extraordinary process has only been used five times.[1] Fast Track negotiating authority is only one version of how Congress could delegate authority to the Executive branch on such trade issues. Alternative processes would maintain more leverage for Congress to shape negotiations.

How Does Fast Track Negotiating Authority Work?

Fast Track requires Congress to agree, before seeing any text (or for that matter, before negotiations begin) that when a trade pact is finished, Congress will vote on the agreement AND all of the changes to domestic law required to conform U.S. law to the pact under the following terms:[2]

A. a closed rule (absolutely no amendments);
B. maximum 20 hours of floor debate in each chamber
C. an up or down vote;
D. legislation written by the Executive branch;
E. bypass regular congressional committee procedures, such as mark ups;
F. vote within 60 legislative days after that legislation is submitted to the Congress.

[1] Fast track has only been used five times: the Tokyo Round of GATT (1975), the U.S.-Canada Free Trade Agreement (1988), the U.S.-Israel Free Trade Agreement (1989), the North American Free Trade Agreement (1993) and the Uruguay Round of GATT establishing the World Trade Organization.

[2] Statutory references for specific fast track provisions: no amendments to the implementing legislation or the trade agreement are permitted under the fast-track procedures at 19 U.S.C. 2191(d). The 60 day voting requirement consists of two aspects contained at 19 U.S.C. 2191(e): The congressional committees to which the implementing bill is referred have only 45 legislative days to review it but without any changes, at which time it is automatically referred to the full House, and a floor vote must then be taken within 15 legislative days. In calculating the time periods for action in either chamber, the days on which that House is not in session are excluded. 19 U.S.C. 2191(e)(3). The limitation of debate to not more than 20 hours, divided equally between those favoring and those opposing the legislation is located at 19 U.S.C. 2191(f)(2) & (g)(2).

Trade implementing legislation, which in the case of both NAFTA and GATT numbered thousands of pages, made hundreds of amendments to conform our existing laws with the trade texts.

What Is Congress' Role Under Fast Track Negotiating Authority?

To obtain such a pre-agreed closed rule before even initiating a negotiation, the President must notify Congress that he wants to negotiate a specific trade agreement with fast-track procedures.[3] Congress must then vote to refuse the application of fast-track procedures to a specific agreement by a vote of both Houses within 60 days.[4]

If Congress fails to reject the Fast Track request in 60 days, the President is then free to negotiate the Agreement knowing Congress will be required to vote on legislation drafted by the Executive branch under a closed rule. Under the statute, the President must next involve Congress by notifying Congress 90 calendar days before he intends to sign the trade agreement. After the President enters into (*i.e.*, signs) the agreement following the expiration of the congressional notice period, he may submit the signed trade agreement, implementing legislation, and certain required supporting information to Congress for approval.[5] Congress must then vote yes or no within 60 legislative days.

Fast Track and Congress: Responsibility But No Authority

Polls show that the public expects Congress to be in control of domestic issues which are impacted by trade agreements like food safety, truck and highway safety and illegal drugs. Under Fast Track, Congress loses the authority and the ability to shape these issues though they are still ultimately held responsible for the result. Once Congress signs off on Fast Track they lose the ability to control the outcome of the negotiations. For instance, since 1988, putting labor standards into trade pacts has been a U.S. negotiating objective under Fast Track. When the Executive branch has returned with agreements without labor standards, Congress, limited to an up or down vote, could not put them into the agreement.

Is Fast Track Mandatory for Negotiating a Trade Agreement?

The Executive branch has the capacity to negotiate with foreign sovereigns right now. Thus, the notion that without fast track, no "major trade deals are possible" is simply untrue. In fact, this extraordinary delegation of authority has only ever occurred five times, twice in the Clinton Administration. Yet the Clinton Administration touts in testimony and press releases more than 200 trade agreements which were negotiated and implemented without fast track. Among these trade agreements completed without Fast Track are expansive and multilateral agreements like the ITA (International Technology Agreement) and the Telecom Agreement and bilateral and plurilateral agreements including the two Japanese Auto Agreements. As well, currently, the Clinton Administration is close to completion on negotiations of the 29-nation, highly complicated Multilateral Agreement on Investment (MAI), and deep in the talks on the WTO's Financial Services Agreement and parts of Asian Pacific Economic Cooperation (APEC). In fact, the entire MAI negotiation has occurred during a period where the Administration has not had Fast Track authority.

This Unique Extreme Delegation of Authority Is No Longer Appropriate

No limitation of congressional authority as severe as Fast Track exists in U.S. law. For instance, while some budget votes are granted closed rules automatically in advance, budget bills are shaped by Congress and have undergone extensive congressional committee process.

Given that today's "trade" agreements are no longer just about tariffs and quotas, the extreme, total delegation of congressional authority represented by Fast Track simply is no longer appropriate. For example, the NAFTA text sets standards for the pesticide residues on the food children will eat; restricts how intensely border meat inspection can be conducted without being a trade barrier; specifies the length and weight of trucks that will travel in North America; restricts how local tax dol-

[3] Notification is at 19 U.S.C. 2902(c)(3)(C).

[4] Disapproval is at 19 U.S.C. 2903(c)(1)(A) & (2).

[5] *Id.* 2903(1)(B). Although not required by statute, some Administrations have invited selected Members or Committees to hold what they call "unmark ups" and "unhearings" to discuss the Executive Branch text before it is formally submitted. Meanwhile, Members not chosen for this arbitrary process only obtain the legislative language when it is presented for final consideration.

lars can be used, for example by forbidding performance requirements such as mandating recycled paper content in government procurement.

What Trade Agreements Will Be Included In This Fast Track?

The Administration has stated that this Fast Track authority would include expansion of the North American Free Trade Agreement (NAFTA) to Latin America and to the Caribbean starting with Chile, and then to Asia through the Asian Pacific Economic Cooperation (APEC); the Multilateral Agreement on Investment (MAI) and expansion of the World Trade Organization, which implements the General Agreement on Tariffs and Trade (GATT).

What is the Origin of Fast Track?

Fast Track was established by President Nixon in 1973 but has its roots even farther back. Under the 1933 Tariff Act, the trade negotiating authority delegated from the Legislative to the Executive branch did not cover non-tariff issues at all. During the Kennedy Round of GATT negotiations—the Round prior to the mid-1970s Tokyo Round—the first non-tariff issue arose in trade negotiations: standardizing customs classifications. President Truman was informed by Congress that he needed to obtain specific congressional approval for the necessary changes to U.S. statutes setting the tariff classification system. The Executive branch did not do this and instead used its existing proclamation authority to "declare" the law changed. This did not go over well with Congress. There was a specific congressional vote (which was not necessary) to show support for the Kennedy Round itself—but to also announce that the Customs Classifications could not be changed except through congressional action.

This bit of turf war was then used by President Nixon to propose an amendment to the existing proclamation authority to specifically allow the President to *proclaim* changes to actual laws as needed to conform them to trade negotiations. Of course, this suggestion also did not go over well with Congress either—to say nothing of some rather major constitutional problems it would have posed. The "deal" that got cut in this turf war is the procedure we now call "fast track." However—the entirety of the non-tariff issues which President Nixon obtained fast track to cover was that customs classification and a *non-binding* agreement on "Technical Barriers to Trade."

Does Fast Track Eliminate Special Interest Deals in Congress?

Fast Track functions as a type of super glue for pork barrel deals in trade agreements. Because no amendments are allowed, Congress is thus forced into rejecting entire trade agreements or approving special deals and unsavory amendments The two times fast track was used by the Clinton Administration to negotiate a trade agreement a bounty of special interest deals were involved.

With the GATT Uruguay vote in a lame duck session of Congress in late 1994, one foreign auto company got a multi-million dollar tax break in the GATT implementing legislation, a certain cellular phone interest was given a special deal, pension liabilities for certain companies were relieved, controversial changes in the U.S. Savings Bond Program were made and so on. These items had nothing to do with implementing the text of the Uruguay Round.

Much has been written about the dozens of special interest deals conducted by the Clinton Administration in the final days of the NAFTA vote. Any Member who supported NAFTA also approved, for instance, an obscure provision of NAFTA's implementing legislation which retroactively wiped out tariffs owed on Canadian-made Honda Civics shipped to the United States since 1989.

For more information about Fast Track or NAFTA, please contact Public Citizen's Global Trade Watch at (202) 546–4996.

What Do the Polls Say About NAFTA and Fast Track?

SEPTEMBER 15, 1997

• 61% of Americans oppose "having Congress grant the President fast-track authority." Hart and Teeter for the Wall Street Journal/NBC, July 26–28 19971.[1]

• 57% of Americans oppose "new trade pacts with Latin American countries. Wirthlin Worldwide for Bank of Boston*: November 1996.

• 87% of Americans believe "trade agreements with other countries...should seek to protect the environment." Louis Harris and Associates for Business Week, Sept. 3–7, 1997.

• 73% of Americans believe free trade agreements with other countries "should aim to lift labor standards." Louis Harris and Associates for Business Week, Sept. 3–7, 1997.

• 56% of Americans believe "expanded trade leads to a decrease in the number of U.S. jobs." Louis Harris and Associates for Business Week, Sept. 3–7, 1997.

• 26% of Americans believe the United states has benefitted from NAFTA. Louis Harris and Associates for Business Week, Sept. 3–7, 1997.

• 51% percent of Americans believe "America's integration in global markets" "mainly benefits multinational corporations at the expense of average working families." Penn, Schoen and Berland Associates, for the Democratic Leadership Council* (DLC) July 1997.

• 64% believe trade agreements between the U.S. and other nations cost more jobs than they create. Greenberg Research for Campaign for America's Future, November 1996.

• 52% say their views toward free trade are less favorable than a year a ago as the result of what they know about NAFTA and GATT. Wirthlin Worldwide for Bank of Boston*: November 1996.

• 64% of Americans believes world trade pulls down U.S. wages. Market Strategies for the Committee for Free Trade and Economic Growth*, June 1996.

• 86% of Americans support "fair trade". Penn, Schoen and Berland Associates, Inc. for the Democratic Leadership Council* (DLC) July 1997.

• 32% of Americans believe NAFTA has had "more of a positive impact on the United States than a negative impact". Wall Street Journal/NBC poll July 26–28 1997.

• 65% of Americans believe American workers have not "received their fair share of the financial benefits created over the last few years by the improved national economy." Gallup poll August 29, 1997.

• 67% of Americans believe that the "jobs now being created in created in the United States are mainly low paying jobs." Hart and Teeter for Wall Street Journal/NBC, June 19–23, 1997.

• 7% of Americans believe international trade agreements have "mostly gained jobs". Source: Yankelovich for CNN-Time, April 1997.

* Pro-Fast Track/NAFTA Organizations

For More Information Please Contact Public Citizen's Global Trade Watch (202)546–4996. Visit Our Website at: www.citizen.org

Statement of Hon. Jim Ramstad, a Representative in Congress from the State of Minnesota

Mr. Chairman, thank you for calling today's hearing to discuss the President's North American Free Trade Agreement (NAFTA) Report.

Ensuring our nation's continued economic growth is one of the most important jobs I have in Congress. The best way to help our economy is to expand the amount of goods and services we produce and consume. Since international trade liberalization stimulates economic growth and with increased exports and inexpensive imports, I strongly supported the passage of NAFTA in 1993 and continue to support it today.

The U.S. has historically had the most open markets in the world, and that is why we need to forge trade agreements with other nations to pry open their mar-

[1] The poll asked: "President Clinton will ask Congress to give him "fast track" authority to negotiate more free trade agreements. This would mean that once the negotiations are completed, Congress would take an up or down vote, but not make any amendments or changes. Do you favor or oppose this?" Strongly Oppose Fast Track: 32%; Somewhat Oppose Fast Track: 29%; Not Sure: 7; Strongly Favor: 9; Somewhat Favor: 23.

kets for our producers and exporters. And NAFTA has helped do just that. Between 1993 and 1996, U.S. goods exports to Canada were up by 33.6% and exports to Mexico grew by 36.5%. In the first six months of this year alone, Mexico and Canada accounted for almost half of the growth in total U.S. exports.

The gradual removal of Mexican trade barriers continues to open an already vast market for U.S. goods. Since enactment of NAFTA, half of all U.S. exports to Mexico have become eligible for duty-free treatment. In fact, January 1, 1997 marked the fourth round of reciprocal tariff reductions, reducing the average Mexican tariff on U.S. products from 10% to 2.9%, giving U.S. firms and workers a seven percentage point margin of preference compared to non-NAFTA competitors.

I know in the end, all the data suggests that NAFTA has had a positive, but small, effect on US trade given the large size of our economy. But let me tell you what this positive effect means to me and my constituents—it means increased productivity and incomes; it means more and better jobs.

We all know every $1 billion dollars of exports supports 20,000 American jobs and those jobs supported by exports pay an average of 13–16% higher than non-export related jobs. According to the President's report we are discussing today, exports to Canada and Mexico supported an estimated 2.3 million jobs in 1996, an increase of 311,000 jobs since 1993. This is not "small" to those employees with these new, better-paying jobs.

I am proud of the successes we have seen to date through NAFTA. While trade disputes with our North American friends will come and go, just as they would without NAFTA, I remain optimistic about continued U.S. economic growth under this land-mark trade agreement. And, as I watch many other nations negotiate advantageous trade agreements without U.S. involvement, I remain hopeful that we in Congress will renew Fast-Track Authority soon to make sure the American people are not left standing on the sidelines, missing out on additional export market expansion opportunities.

Thank you again, Mr. Chairman, for calling this hearing. I look forward to hearing from today's witnesses about the President's NAFTA report.

Statement of Hon. Silvestre Reyes, a Representative in Congress from the State of Texas

Mr. Chairman and members of the committee. Thank you for the opportunity to testify about the effects and operation of NAFTA. It is important that with the release of the President's report that all of the outcomes regarding NAFTA, both positive and negative, be brought forth. I want to express my appreciation to the committee for holding this hearing focusing attention on this far reaching trade agreement. With the President's request for new Fast-Track authority for further hemispheric trade agreements, it is paramount that our experience under NAFTA be fully reviewed, and it is from this proving ground of three and a half years that we should proceed.

Specifically, I wish to relate the experience of NAFTA to my district, the 16th District of Texas which encompasses the city of El Paso, Texas. El Paso is the fourth largest city in Texas, and the largest border community in Texas with over half a million people and is situated directly along our international border with Mexico. Furthermore, my community has a long history of international business and labor between El Paso and Mexico. From this standpoint, I believe I can provide an important view regarding the operation and impact of NAFTA.

NAFTA sought to raise the level of commerce for our country and thus the quality of life for all Americans by increased opportunities for trade. A shift in the economic base toward higher wage and higher skill industries was contemplated, however, it was recognized that there would be a significant dislocation of jobs and disproportionate stresses on certain parts of the country. Consequently, appropriate mechanisms were to be in place to preserve and improve the environment, supplement our infrastructure, create economic development and jobs, and provide appropriate safety nets for workers in the way of financial assistance and job retraining through transitional adjustment assistance.

The President in his report focuses on the impact on exports and job creation, giving overall good reviews and pointing to modestly boosted U.S. jobs and incomes. As you know, however, other entities have produced their own reports on the impact of NAFTA and assert that NAFTA has in fact resulted in net job losses.

The situation in my district, regardless of these reports, brings home a reality of serious job loss and endemic unemployment. While the rest of the country reaps the benefits of a booming economy, El Paso has suffered the most NAFTA–TAA certified job losses in the country amounting to nearly 6000 dislocated workers. While the U.S. economy has seen unemployment drop to the lowest unemployment level in twenty three years to 4.9% in July, the unemployment rate in El Paso has consistently remained in double digit figures, currently standing at 11.7% representing nearly 35,000 jobless workers. This is a reality seen not only in my community but all along the Texas-Mexico border, with unemployment levels reaching as high as 16%.

Thus, while the overall economy is in a period of unprecedented growth flowing from larger hemispheric trade; the entry point of this trade, the border, has borne a disproportionate share of the costs. Not only has there been a loss of wages but a ripple effect impacting the broader community. We have not seen the anticipated economic development needed to compensate for this disruption to the economy. In fact, it was only this past month that NADBank launched its Community Adjustment and Investment Program identifying El Paso as one of thirty five NAFTA impacted communities. This follows the loss of nearly 70 businesses in downtown El Paso and numerous factories moving their operations to Mexico.

More significantly, while NAFTA provides job training assistance, these programs are not tailored to the unique characteristics of specific labor markets and economies. In my district for example, the vast majority of job losses involve minority and women workers, many of them having worked twenty and thirty years for a single employer. Despite lacking high school educations and without knowing English, these workers were long term taxpaying employees working productively in the garment and other manufacturing industries. With NAFTA, many of these jobs went to Mexico, leaving these workers in need of new vocational skills in order to secure the higher technology jobs emerging from NAFTA. These workers instead of receiving training directed toward these new requirements through comprehensive bilingual vocational training, most were placed in remedial English courses and G.E.D. courses. Most of these were pre-existing programs directed toward youth or citizenship training without any vocational component whatsoever. Formal diplomas and English was not necessarily needed, rather skills training with bilingual working English would have rapidly and expeditiously eased these workers back into the job force.

As you are aware, a maximum of twenty-four months for training is provided for reintegration into the workforce under the NAFTA–TAA program. While this may seem like a reasonable amount of time to obtain needed job skills, this amount of time has proved to be inadequate in many cases where these workers lack formal educations, have minimal English skills, and must transition into an entirely different line of work.

In addition, while twenty four months of training is provided, this is matched with only 18 months of financial assistance. This six month gap has further left many of my constituents in a position of having to drop out of training programs prior to completion because of this financial gap. If we are attempting to provide a so called "bridge" for workers, transitional adjustment assistance programs should not create this obstacle to training fulfillment.

In conclusion, as someone representing a district that sits right on the international border with Mexico, I understand in very real terms the crucial role that international trade plays in the American economy. The need to expand commerce should result in expanded opportunities for every American, and proper investments should be made to ensure no one is left behind. Economic development programs must be initiated quickly and focused towards impacted areas. Training programs must be tailored to the diverse communities across this country and especially for those with unique needs. Moreover, an adequate range of time for training must be provided to allow for different needs among our citizens, along with adequate parallel funding to allow for transition.

Mr. Chairman, thank you for giving me the opportunity to speak before this committee regarding this very serious issue. I hope that my views can provide constructive information for our overall economy as we look at expanded opportunities for commerce, trade and labor, and that effective programs are in place to resolve the transition that comes with increased trade opportunities.

Statement of Brenda F. Arnett, Executive Director, Texas Department of Economic Development

As executive director of the state's lead economic development agency, I want to clarify the North American Free Trade Agreement's positive effects on the Texas economy. Like many Texans, I am a strong advocate of the agreement. NAFTA has generated exports, new business opportunities, and jobs for Texans. It has enhanced the performance of our state's economy. NAFTA is good for Texas.

Foreign trade plays a vital role in the Texas economy, a larger role, in fact, than for the nation as a whole.

While Texas accounts for about 7 percent of the U.S. population, the state's share of national exports is closer to 12 percent. In 1996, the state's $74.02 billion in total exports equated to 14.5 percent of the Texas gross state product, the value of all goods and services produced in the state, while total U.S. exports amounted to about 8.2 percent of the gross domestic product. In 1996, Texas exported $3,870 in merchandise for every man, woman and child in the state. That figure is 65 percent higher than the comparable U.S. average of $2,348 in per capita exports.

Since NAFTA's inception, Texas has created more jobs than any other state in the nation. A record-number of Texans is employed—nearly 9.3 million in December 1996. The state's civilian labor force continues to grow faster than the national labor force. Since January 1, 1994, 774,000 jobs have been created, a 10.2 percent increase over the job creation figures of pre-NAFTA 1993.

More than 66,000 of those new jobs were added in the state's manufacturing sector, pushing total manufacturing employment over the million-mark by mid-1994. The average manufacturing wage in Texas has increased 8.3 percent since December 1993, from $11.05 per hour to $11.97 per hour in December 1996.

Texas exports have nearly tripled since 1987, when state-level export figures initially became available. From an estimated $25.3 billion in 1987, the state's merchandise exports grew to $74.02 billion in 1996.

Mexico is Texas' largest trading partner, and Canada is our second-largest. Our exports to these markets account for approximately half of all Texas exports. Texas exports to Canada have soared in the past few years. Shipments to Canada rose by 7.4 percent in 1996 following a gain of more than 25 percent in 1995. Clearly, the arrival of NAFTA has focused attention on the potential for northbound trade from Texas.

Trade with Mexico rebounded dramatically in 1996 after falling in the wake of the 1995 peso devaluation. Texas shipments to Mexico rose by nearly 25 percent last year, increasing from $21.86 billion in 1995 to $27.19 billion in 1996.

Our geographical location and easy access to Mexico continue to make Texas a magnet for companies wishing to expand and relocate, especially to penetrate the emerging markets of Latin America. Yet, critics continue to point out the number of jobs certified by the U. S. Department of Labor as lost due to increased competition from Canadian or Mexican firms, or production shifted to those nations. A process is in place for reporting these job losses. An incentive exists for doing so, i.e., federal assistance for retraining. Consequently, the negative impacts of NAFTA are readily quantifiable. However, this represents only one-half of the equation. There is no federal or state form to complete or process to follow that documents the jobs created because of increased sales to Canada or a new joint venture opportunity in Mexico.

As of May 22, 1997, we had certified 10,703 Texas jobs as lost due to an increased competition or production shifts under the NAFTA/Trade Adjustment Assistance program, according to the Texas Workforce Commission. While any job loss is significant to the worker and the community involved, this figure needs to be put in the broader context of the state's economic performance since NAFTA came into effect. In the three years since NAFTA came into effect, as pointed out earlier in this testimony, Texas has recorded a net gain of 774,000 non-farm jobs. The certified job losses, therefore, represent less than 1.4 percent of the state's job growth since the end of 1993.

The shift of lower-skilled jobs from the U. S. to other, lower-wage nations is not a new phenomenon either. The location of such operations in Mexico, rather than the Caribbean Basin or the Pacific Rim, offers a greater potential for U. S.—and particularly Texas—firms to act as suppliers, consultants and service providers. NAFTA offers very tangible reasons for firms to employ the combined human, financial and technological resources that the three NAFTA nations offer.

Although there are no available figures on how many of the 774,000 new jobs created in Texas in the past three years can be attributed specifically to export activity, a few points are worth noting:

- Texas' largest export industries are electronic equipment and components and industrial machinery and computers;
- Between December 1993 and December 1996, electronics and computers were among the state's fastest-growing manufacturing industries. In fact, both industries grew much faster than overall non-farm employment in Texas;
- Employment in electronic equipment and components has risen by 15.3 percent, or 15,800 jobs, in the past three years; and

• The number of jobs in industrial machinery and computers is up by 21,400 or 18.6 percent since December 1993.

Texas is now home to more than 1,278 foreign subsidiaries, which represent 50 countries. The latest available data show that Texas has attracted $68.6 billion in foreign direct investment. Those investments have brought some 320,000 jobs to Texas.

One cannot stress the significance of NAFTA to Texas and the U. S. enough. NAFTA has offered an assurance of greater political stability to the global business community. This has been particularly important in the wake of the December 1994 peso devaluation, when the value of the agreement was proven in a most tangible way. Rather than respond to the crisis in a protectionist fashion, as it had in the wake of the 1982 peso devaluation, Mexico did not raise tariffs on American or Canadian goods, which would have violated the NAFTA agreement.

In addition, had NAFTA not been in effect during the 1994 peso devaluation, Mexico's financial crisis would have been much greater. Matters might have even reached the point as to threaten the political stability of our southern neighbor, something that would have had terrible consequences on trade, the Texas economy, illegal immigration, and the security of our borders. Instead, Mexico's economy has rebounded in a relatively short period of time—certainly, much more quickly than it did after the 1982 peso devaluation. The credit for this turnaround goes to NAFTA, which bolstered Mexico's ability to export its products and thus revive its economy.

The formal trade ties between the U.S. and Mexico have increased Mexico's relative trade with the U.S. Mexico must import goods to be able to export goods. Particularly in a time of domestic austerity, analyst Jon Hockenyos of "Texas Perspectives" has noted, Mexico would rather buy those imports from the U.S. As a result, U.S. exports to Mexico declined less than other countries' exports to Mexico in 1995. Moreover, the rebound in shipments to Mexico in 1996 was quite dramatic. Compared with the prior year, Texas exports to Mexico were down by 8.3 percent in 1995, and up by 24.3 percent in 1996. For the U.S., the comparable figures were an 8.9 percent decline in 1995, and a 22.6 percent gain in 1996.

NAFTA is as much about investment as it is about trade. Mexico actively seeks foreign direct investment, particularly as it continues its program of privatization. The U.S. is considered a preferred source of that investment. Mexico needs to continue modernizing its industries and upgrading its infrastructure, and this offers tremendous long-term business opportunities, particularly for Texas companies that have nurtured ties with Mexican firms.

The investment benefits of NAFTA are hardly limited to the Mexican side of the border. Because of the agreement's rules on North American content, Asian and European firms have another incentive to establish production platforms here to serve the Canadian, U.S. and Mexican markets. Existing firms in North America are also looking southward to Mexico and beyond. Texas' proximity to Mexico, and Texas' location in a major trade corridor between Mexico and Canada, make the state a leading candidate for new investment, both foreign and domestic.

Clearly, NAFTA's most significant contribution has been to effectively lock in the economic reforms that Mexico adopted in the late 1980s, early 1990s, and more recently, the recent elections of 1997. A stable and healthy Mexico is tremendously important to the United States and to Texas. It is only in this kind of setting that economic linkages can take root and grow.

The Texas Department of Economic Development is dedicated to constantly improving economic prospects for Texas by providing the opportunities necessary for businesses to succeed. NAFTA is one of our most effective sales tools, and most deserving of the same support and optimism from Texans that it receives from businesses around the world.

To dismiss the positive economic effects that NAFTA and future Latin American trade agreements will generate is shortsighted and irresponsible. We live in a global economy that requires cooperation, not isolation. Texas is the epicenter of a developing and lucrative trade corridor. The health of the Texas economy depends upon increased foreign participation. The ability of NAFTA to create more jobs, inject more capital, and provide greater global investment opportunities for Texas is contingent upon our understanding that success in the global marketplace requires taking advantage of opportunities beyond our borders. NAFTA deserves every Texan's support.

Statement of Antonio O. Garza, Jr., Texas Secretary of State

President Clinton's Mexico visit may be over, but the issues raised during his visit still linger. One in particular—the potential to expand NAFTA to Chile—deserves special attention once again.

In July, the President is scheduled to deliver to Congress a report on the impact NAFTA has had during its three-year life span in what I hope will be the preparation for his seeking the "fast track authority" from Congress necessary to issue Chile and others an invitation to join an expanded free trade zone.

As I've said before, the importance of fast-track authorization and its potential to shape worldwide trade by positioning the U.S. to take a commanding leadership role cannot be underestimated. But the President and Congress must come together on this issue and act soon, or else we will completely miss the window of opportunity. It has already narrowed.

That's why this past week I sent the Office of the U.S. Trade Representative and the U.S. International Trade Commission a report outlining the positive effects NAFTA has had on the State of Texas. The report, titled "NAFTA, Texas Style," can be found on our web site at [http://www/sos.state.tx.us/texasnafta]

The report stresses that many of the initial fears concerning NAFTA, fears that make up the substance of the NAFTA renegotiation bill Congress is considering, have proven to be unfounded.

Critics predicted that NAFTA would cost the U.S. in terms of jobs, wages and living standards. In fact, however, the U.S. economy has been generating approximately 2.25 million jobs per year and the U.S. unemployment rate in 1996 averaged approximately 5.5%. Since 1994, in fact, job growth has stayed ahead of job displacement.

Texas in particular has seen significant job growth, wage increases, higher trade figures and lower unemployment during the post-NAFTA implementation period. For example, there have been significant employment increases in machinery, computers, electronics, transportation equipment, metals, furniture and other key industries. In NAFTA's first year 247,000 jobs were directly related to exports to NAFTA partners, representing a 15% increase since NAFTA was enacted. Also, Texas has shown strong growth in the manufacturing sector (Texas has led the nation in the addition of new manufacturing jobs since 1990), rebutting critics' claims that such jobs would inevitably move to Mexico.

Critics also pointed to environmental concerns, claiming that NAFTA would not do enough to address them, and then blamed the agreement for many less-than-ideal situations that have existed over the last three years in such areas as water supply, air quality and solid waste along the Mexican border. As a state that shares a 1,200 border with Mexico, Texas knows full well the impact that NAFTA has had on these long-standing issues (the key words here being "long-standing," as these issues were of concern long before NAFTA was enacted).

The reality is that NAFTA has provided a critically needed framework in which to develop cooperative, long-term solutions to these environmental concerns—a framework that was notably absent before the NAFTA's enactment. Thanks to NAFTA, for instance, the North American Development Bank (NADBank) and the Border Environment Cooperation Commission (BECC) are working together to bring funding to projects for the benefit and protection of the border environment.

These are just a few of the many examples highlighted by the report. NAFTA's short lifespan has already shown that its benefits outweigh the downfalls. More importantly, it has started a momentum that simply needs time to fully develop.

When President Clinton submits his report to Congress in July, he'll be poised to push for what may be the last opportunity to make good on our promise to expand NAFTA to Chile. It is imperative that he do what is necessary to urge Congress not to weigh NAFTA down with additional burdens that will serve to close doors but instead keep those doors of opportunity wide open with fast-track legislative authority.

NAFTA works, and Texas knows it more than anyone.

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