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TRADE VERSUS AID: NAFTA FIVE YEARS LATER

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BEFORE THE

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COMMITTEE ON FOREIGN RELATIONS

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TRADE VERSUS AID: NAFTA FIVE YEARS LATER

TUESDAY, APRIL 13, 1999

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met, pursuant to notice, at 2:41 p.m., in room D–562, Dirksen Senate Office Building, Hon. Jesse Helms (chairman of the committee) presiding.

Present: Senators Helms and Thomas.

The CHAIRMAN. The committee will come to order, first with the apologies of the chairman, who is slower than usual and had to walk out on the chairman of the Joint Chiefs of Staff and the Secretary of Defense in order to be here. But it is worth it.

The committee hearing today will address the pros and cons of NAFTA, a treaty that has cost thousands of American workers their jobs and created a sharp division about its wisdom. North Carolina's textile workers have been especially hard hit, as well as those in many other States. And we will hear from some of those victimized.

For example, Mrs. Vontella Dabbs, who has taken the time from her job at Delta Mills in Maiden, NC, to come here to testify, for which I am very grateful. Mrs. Dabbs will speak for hundreds of thousands of workers who have lost their jobs as a result of NAFTA.

Now there are 10 Senators, and I have counted them, still around this place who served with the late Senator Sam Ervin. Senator Ervin was my senior colleague for 2 years before his retirement on January 3, 1974. Now Senator Ervin and I did not belong to the same party, but he was my friend, and we worked together on countless issues.

After he left the Senate, he missed the Senate. And he missed it badly. And he called almost every day, and sometimes I would call him. But when a constitutional issue was raised in the Senate, I always sought Senator Ervin's advice, along with several other constitutional scholars with whom I have a personal relationship.

Now Senator Ervin was on target about most things, and he was absolutely right when he worried about the principal harm to the American working people when U.S. negotiators sat down with foreign representatives regarding treaties. He would say, "Uh-oh." I can hear him now with that chuckle, warning that "the United States had never lost a war or won a treaty."

Now I mention all this as a prelude to my reiterating that Senator Sam was right on target about NAFTA. Now that the United

States is 5 years into NAFTA, more than 200,000 jobs have been lost nationwide. In North Carolina, more than 20,000 have been lost in the textile industry alone. And the picture is getting bleaker by the day, with plants closing and moving to Mexico, hundreds and often thousands of good-paying jobs being lost by Tarheel workers. And the same thing is going on in other States.

Well, Levi Strauss, recognized worldwide as a quintessential American product, is moving offshore. In February, Levi announced the layoff of 30 percent of its U.S. work force, meaning that 5,900 Americans had lost their jobs pronto, 380 of them living in Murphy, a rural mountain community, where the unemployment rate in North Carolina is more than 10 percent. And jobs are already scarce. The same story applies to Burlington and so forth and so on.

And I am going to forego the reading of the rest of my prepared statement, and I may work it in as time goes by.

[The prepared statement of Senator Helms follows:]

PREPARED STATEMENT OF SENATOR JESSE HELMS

The Committee will come to order. Today's hearing will address the pros and cons of NAFTA, a treaty that has cost thousands of American workers their jobs and created a sharp division about its wisdom. North Carolina's textile workers have been especially hard hit as well as those in many other states.

We will hear from some of those victimized for example—Mrs. Vontella Dabbs who has taken time from her job at Delta Mills in Maiden, N.C., to come here to testify—which I very much appreciate. Mrs. Dabbs will speak for hundreds of thousands of workers who have lost their jobs as a result of NAFTA.

There are ten U.S. Senators still around who served the late Senator Sam Ervin, Jr. Senator Ervin was my senior colleague from North Carolina for the two years before his retirement on January 3, 1974.

Senator Ervin and I did not belong to the same party, but he was my friend and we worked together on countless issues. After he left the Senate, he missed the Senate, and we talked by telephone two or three times a week, sometimes more often than that. When a constitutional issue was raised in the Senate, I always sought Senator Ervin's advice along with several other constitutional scholars with whom I had a personal relationship.

Senator Ervin was on target about most things and he was absolutely right when he worried about the potential harm to the American working people when U.S. negotiators sat down with foreign representatives regarding treaties. I can hear Senator Sam now, with that chuckle, warning that the United States "had never lost a war or won a treaty."

I mention all this as a prelude to my reiterating that Senator Sam was right on target about NAFTA. Now that the U.S. is five years into NAFTA, more than 200,000 jobs have been lost nationwide. In North Carolina more than 20,000 jobs have been lost in the textile industry alone—and the picture is getting bleaker by the day with plants closing and moving to Mexico—hundreds, and often thousands, of good paying jobs being lost by Tarheel workers.

Levi Strauss, recognized worldwide as a quintessential American product, is moving offshore. In February, Levi announced the lay-off of 30% of its U.S. workforce, meaning that 5,900 Americans lost their jobs—380 of them living in Murphy, a rural community where the unemployment rate is more than 10% and jobs are already scarce.

The same story applies to Burlington Industries. In January, Burlington announced the closing of seven mills, another 2,400 North Carolinians out of work, and devastating to the hard working men and women affected.

The failings of NAFTA are by no means limited to North Carolina or the Southeast. The Wall Street Journal reported the misery of Berj Mehserjian, a hard working immigrant who escaped war-torn Lebanon to start a small apparel shop in Los Angeles, California. Through hard work, his small shop grew rapidly and in 1987 it generated $2.9 million in sales and $400,000 in profits from 120 sewing machines.

Has he achieved the American dream? Nope, because of NAFTA, he was forced to move his plant to Mexico to have similar labor costs with his competitors. He didn't want to move; he had no choice and today he is in Mexico, living in a run-down hotel and paying his workers $60 a week instead of $300 a week he paid his workers in Los Angeles.

The Wall Street Journal also recently reported that the U.S. trade deficit ballooned from $4.5 billion in 1993 when the U.S. entered NAFTA to $40 billion just three years later. In 1998 alone, North Carolina lost 10,500 textile jobs—6% of North Carolina's entire industry in one year!

Levi Strauss, Sara Lee, Fruit of the Loom, Cone Mills, Guilford Mills, Unifi, Burlington Industries—all are companies that have moved south because of NAFTA. Some argue, and we may hear it today, that the net gain in so-called high tech and service sector jobs have more than made up for such losses. Try telling that to folks in towns like Forest City, Cliffside, Henrietta, Mooresville, Cramerton, Oxford, Statesville, Raeford, Murphy in North Carolina—and additional others in South Carolina, Tennessee, Georgia, California—all across the country—which have lost thousands of good jobs because of dollar-a-day wages south of the border.

So it is appropriate that we're having this hearing to examine NAFTA after its five-year trial period. I hope a useful and candid dialogue will emerge to enable careful consideration of what is happening to our small towns in North Carolina and elsewhere as a result of NAFTA and other trade policies.

The CHAIRMAN. Now, then, I understand several people have travel schedules, and I want to keep this thing going as rapidly as I can. The first witness will be the Honorable Richard W. Fisher, who is a Deputy U.S. Trade Representative; Dr. Charles McMillion, MBG Information Services of Washington; and the one and only Patrick J. Buchanan, columnist from Washington; and Mrs. Vontella Dabbs, whom I mentioned earlier.

If you will be prepared to testify in that order, and we will hear first from you, Mr. Fisher.

STATEMENT OF HON. RICHARD W. FISHER, DEPUTY U.S. TRADE REPRESENTATIVE

Mr. FISHER. Thank you, Mr. Chairman. I appreciate the opportunity to be here, to appear before you this morning alongside two celebrated public figures, one of whom, incidently, voted for me when I ran for the U.S. Senate in 1994. I do not think it was Mr. Buchanan, but nonetheless, I am delighted to be here with two such well-known individuals.

As you requested, Mr. Chairman, I would like this afternoon to address the impact of NAFTA on jobs, on wage rates, on industry. And I will be using many statistics and numbers in this hearing.

I would like to say by way of preface that I know what lies behind these numbers. I ran a business in the private sector for 20 years before being asked to join this Government 1 year ago. I am a Texan who grew up in Mexico. I spent a great deal of time in deep south Texas and northern Mexico on the very frontier of NAFTA.

And perhaps more importantly than all that, I know what it is like to watch your father lose his job or, in the sanitary parlance of economists, to be displaced. I know what it is like to have two working parents without a college degree, in fact without a high school degree, because I was a "latch key kid" before sociologists coined the term.

And I know that behind every job number there is a human being, a family, a sense of self-worth and dignity, and a dream for a better future. It is against this background, Mr. Chairman, that I am here to tell you that NAFTA is a good thing. It is good for jobs. It is good for business. It is good for living standards.

And I suppose like the music of Wagner, it is not as bad as it sounds, especially the version played by some of the witnesses that will follow me today, both of whom are gifted rhetoriticians, far more skilled than I am. But I would like to make the argument for the case for NAFTA.

Against the background particularly of America's trade interests, which are worldwide, it is fair to say that we have no relationship more important to our trade interests, our fundamental interests in peace and security and to the daily lives of our people, Mr. Chairman, than those who are closest to home.

This is true in the narrowest trade policy sense. Canada, as you well know, is our largest export market. Mexico is our second largest export market. And it is true in the larger sense that the importance to all Americans of a peaceful, prosperous, environmentally healthy North American continent.

Let me begin, sir, with the context in which we should discuss not only NAFTA but all the economic policies that I know you are interested in. As we meet today, our country's economy is perhaps in better economic shape than it has been in a long time. As you know, we have been enjoying the longest peacetime expansion in America's history. Our economy, led by our private sector, has created 18 million new jobs and cut unemployment to 4.2 percent, which is a 30-year low.

And our families are enjoying ever higher living standards. Since 1992, average wages have reversed a 20-year decline. They have grown by 6 percent in real, not nominal, terms. Family prosperity that is new in America is reflected, for example, in the record rates of home ownership and, I hasten to add, which is very important, in the phenomenal growth in investment in the stock market by regular, ordinary Americans.

Some 70 million individuals today own equity mutual funds. It is no longer a playground for the rich. Many people have put their retirement hopes and their savings into the marketplace.

Though NAFTA is obviously not the sole source of this prosperity. We know that. But it has contributed to the economic boom by creating fairer and more open markets for Americans. During NAFTA's first 5 years, U.S. goods exports to our NAFTA partners increased by $93 billion or 66 percent to a total of $235 billion. These are big numbers, Senator.

The $156 billion in goods we exported to Canada were as much as we exported to all the countries of East Asia put together. This year we will export more than five times to Mexico what we export to China. Our exports of $79 billion in Mexico makes it our second-largest export market, as I mentioned earlier, after Canada.

This reflects a fundamental change in Mexican policies. Our market has long been far more open to Mexican goods and services than Mexico has been to ours. Five years ago, Mexican tariffs on industrial goods coming from the United States averaged 10 percent. That was more than twice our contemporary rate at that time of 4 percent. Today, Mexican tariffs are 2½ percent on average and will be eliminated entirely in the next decade.

Two weeks ago, Senator, I went to Mexico as part of our exchange of views that some negotiators were having with them. I drove past some of the neighborhoods where I played as a child, and I looked at these residential areas, at the parks with the lakes where we used to take little boats and rent them whenever we could, whenever we had free time. And I saw children playing the same games I played as a child when I lived there.

But one thing is different. I also saw potential customers for American products, for our clothes, for our cars, for our food, for the whole range of goods that we make. Whereas before, when I grew up there, there were no customers to speak of for American-made products.

Every State in the Union, all 50, have enjoyed increased NAFTA trade. Every State represented by the members of your distinguished committee, sir, enjoyed significant gains from trade with their NAFTA partners. California, for example, saw its exports increase by $12.6 billion or 95 percent. Even the smallest increase percentagewise, recorded by Oregon at 29 percent, meant an extra billion dollars in trade.

Exports to Mexico in some States rose 100 percent and in some cases, like North Carolina, sir, by more than 300 percent over the last 5 years. As a result, we hear of stories like that of General Time Corp. of Norcross, GA, a small manufacturer of clocks, which saw its sales to Mexico increase 800 percent in 1998, thanks to the reduction of Mexican tariffs in the NAFTA.

For Goulston Technologies of Monroe, NC, a small manufacturer of lubricant for synthetic fibers, Mexico cut tariffs on its products from 15 percent to zero, allowing its export sales to Mexican fiber producers to grow by more than 250 percent since 1993. Thus Goulston has increased its employment in the United States to better serve the Mexican market.

Or Taylor Dunn, a manufacturing firm in Anaheim, CA, just to pick a small firm here, makes electrical vehicles. They added 50 workers because NAFTA cut Mexico's tariffs on their products from 25 percent to zero.

There are many such stories from small businesses to large ones, none of which provides the gripping visuals that make for dramatic television news reports, yet all of which confirm that NAFTA has led to more jobs, higher wages, and improved family standards of living.

We know this much from the aggregate data in this country: More Americans are at work today than at any time in American history. I already noted the national growth in employment. And looking at the individual States, Mr. Chairman, we see similar stories.

In North Carolina, for example, total non-agricultural employment, non-agricultural employment, has risen from 3.3 million in January 1994 to 3.8 million in February 1999, a gain of over a half million jobs. The unemployment rate in the Tarheel State, as you well know, has declined to 3.1 percent in February of this year, well below the national average.

American workers are making more money. The average paycheck has risen since NAFTA's passage. Real hourly earnings are up from an average of $7.39 in 1993 to $7.83. Now we are not complacent about this in this administration, and nobody should be. We want to see further improvement. But the point is this: After a long period of stagnation in this country, wages are finally going up in real terms.

Farmers depend more than ever on North American markets. Our agricultural exports to Mexico have grown from $3.6 billion in 1993 to $6.1 billion in 1998. That is a 70-percent increase.

Exports to Canada are also up from $5.3 billion in 1993 to over $7 billion in 1998. Mexico is now the third largest market for United States agricultural exports, exceeded only by Canada, which is No. 1, and by Japan. Mexico now takes about $1 in $9 of our agricultural exports from the great United States. And this is especially important, Mr. Chairman, in the context of the Asian financial crisis, which has badly hurt our sales in the Pacific rim.

In 1997 the administration conducted a comprehensive study of the operations and effects of the NAFTA in 11 industrial sectors, and also in agricultural commodities. The study revealed that NAFTA's reduction in tariff and non-tariff barriers helped raise U.S. exports of motor vehicles, electronic components, textiles and apparel, computers, chemicals and agricultural products.

You asked, sir, about the textile industry, and I know that is of special interest to you. The textile industry in the United States was a strong supporter of NAFTA when it first came before Congress because of factors including NAFTA's strong rules of origin, the opening of Mexico's market to U.S. textile exports and customs enforcement provisions. The 5-years since have proven the merits of this agreement for the textile industry.

In September 1997, Carlos Moore, the executive vice president of the American Textile Manufacturers Institute said the following: "In the Manufacturers Institute's view, NAFTA is the model of what a trade agreement should be, fair, balanced and reciprocal. By any measure," he went on, "NAFTA has provided significant benefits for the U.S. textile industry. All the NAFTA partners have increased their exports of textiles to each other. This is what NAFTA promised and this is what NAFTA delivered to the textile industries."

Mr. Chairman, the more concrete example came from a talk I had yesterday with one of your constituents, Mr. Chuck Hayes, the chairman and CEO of Guilford Mills of Greensboro. As you know, sir, this is the largest warp knitting operation in the world. It has 6,500 employees in your State and about $950 million in sales.

And here is what Mr. Hayes told me yesterday about NAFTA, and I quote with his permission: "This just doesn't help Guilford. It's going to help the entire U.S. textile industry. The theory is simple. If garment makers can be lured to low-cost manufacturing sites in Mexico, they won't go to the Orient, where they end up buying fabric from textile manufacturers in Japan, South Korea and other Asian countries. If they set up in Mexico instead, they will buy their bolts of cloth from companies north of the border, such as Guilford Mills and its local plants. To me, NAFTA was truly the beginning of a renaissance for the textile industry in the United States."

Mr. Hayes went on to say, "Mr. Ambassador, if we didn't have NAFTA, we'd be out of business. Ten years from today, I'd have to close my doors."

In addition to stimulating U.S. textile exports, the NAFTA rules of origin result in a high concentration of U.S. fabric and other inputs in apparel imports from Mexico to the United States. Under NAFTA, Mexico has indeed become our largest supplier of imported apparel. Almost 60 percent of the value of U.S. textile and apparel imports from Mexico in 1998 were comprised of U.S. content, for example, in formed and cut fabric.

In contrast to the trade with Mexico, textile and apparel imports from our large traditional Asian suppliers contain virtually no U.S. inputs, zero U.S. inputs. NAFTA has thus shifted production and trade to the North American region, which created significant opportunities for U.S. producers, helped to produce and preserve jobs in the United States, increased efficiencies, and strengthened the industry's global competitiveness.

NAFTA has also helped promote exports of American-made textiles and apparel. Prior to NAFTA, Mexico's average tariff on U.S. textile and apparel products was 16 percent, whereas the average U.S. tariff on imports from Mexico was 9.1 percent. Under the NAFTA requirements, by January 1, 1998, Mexico had eliminated tariffs on 93 percent of U.S. yard and thread exports, 89 percent of U.S. fabric exports, 60 percent of U.S. exports of made-up textile products, and 87 percent of U.S. apparel exports.

United States exports of textiles and apparel to Mexico, Mr. Chairman, increased by 182 percent between 1993 and 1998, increasing from $1.6 billion to $4.5 billion. United States shipments to Canada during that period rose by 72 percent to $3.4 billion.

Added together, Mr. Chairman, this means that in just 5 years our exports of textiles and apparel products to our NAFTA partners more than doubled, reaching almost $8 billion in 1998, of which, incidently, sir, $1.3 billion came from North Carolina alone, up from $366 million 5 years ago. In other words, it has quadrupled over the last 5-year period from North Carolina.

With respect to employment in textiles and apparel, the trend is also clear. Textile product in this country, in the United States of America, is up. While employment in the industry has continued a long decline, wages in the industry have risen more rapidly than wages for Americans in general since NAFTA's passage. Wages for production workers in the textile industry increased 17 percent between 1993 and 1998. And wages for production workers in the apparel industry rose 20 percent.

The bottom line is this: NAFTA has helped stem the losses in textiles and apparel, given that it has improved the competitive situation in the industry regionally and globally. Or, put another way, in the absence of NAFTA, the competition position of this industry would likely have eroded, and the job losses would have been far greater.

Thus on the whole, Mr. Chairman, the NAFTA has helped create a more competitive North American market, stimulating more investments that benefit us all. Investment decisions can now be made to a greater degree on rational economic and commercial grounds than was the case prior to NAFTA.

Incidentally, NAFTA has not been implemented at the expense of capital investment in the United States. It is correct to say, as some of the opponents of NAFTA will say, that U.S. investors have indeed invested more and more to the north and to the south. U.S. direct investment on a historical cost basis reached an aggregate of $25 billion in Mexico and $99 billion in Canada, according to the latest figures available. But these figures pale in comparison to investment here in the U.S., where $1.3 trillion was invested in 1997 alone.

Finally, NAFTA has helped us improve the environment and quality of life in North America. And this is as it should be. In our relations with our neighbors, we have concerns that extend well beyond trade. And I know you know these better than I do.

Growth should come hand in hand with a higher quality of life, the advancement of basic values, like clean air and clean water, public health and protection of our national heritage and our natural heritage, safety, dignity, and the elementary rights of working people, and a common front against crime and corruption.

NAFTA has allowed us to improve our working relationship with Mexico and Canada in these areas as well, although to be sure, Mr. Chairman, we still have problems that need to be solved. We know that.

With respect to the environment, incidentally, NAFTA has helped us cooperate more effectively on pollution control, water quality, wildlife habitat and many other areas. In this important area of environment improvement, as with the reduction to barriers in trades and goods and services, NAFTA is incomplete. It remains a work in progress needing perfection.

And yet, as the Dallas Morning News pointed out in its editorial January 4 of this year, NAFTA is "the 'greenest' commercial pact ever negotiated. And the U.S., Canadian, and Mexican environments are better off with it than without it." NAFTA has represented a significant step forward in the environmental aspects of trade.

On the labor front, in addition to saving and generating jobs that would have been lost to Asia, NAFTA's agreement on labor cooperation has generated our largest cooperative effort of labor anywhere in the world. It covers safety and health, employment and training, industrial relations, workers' rights, child labor and gender issues, and allow citizens to draw attention to labor practices and improved working conditions.

In each of these two areas, Mr. Chairman, it is true to say that we have challenges that have yet to be addressed. But the NAFTA and its side agreement put us in a better position to deal with them.

In conclusion, Mr. Chairman, NAFTA is very much a work in progress. It will not be completely implemented until the year 2008. We are monitoring progress closely. We are learning from our experience. We are using it to improve the agreement as it goes into force. And we are addressing disputes with Canada and Mexico forthrightly.

But through the cooperative framework we have built through the NAFTA, we have avoided and solved many disputes. And taken as a whole, I think we can be pleased with the record of NAFTA 5 years after its passage. Five years ago, we predicted this agreement would mean growth, better and more jobs, a rising standard of living and a higher quality of life. Today, looked at objectively, we can say that the agreement is keeping these promises. We do have more jobs. We do have higher wages. We do have a stronger economy than we did 6 years ago.

Our governments are working more closely together and accomplishing more than ever before on environmental protection, on workplace safety, and all of the other issues that affect the daily lives of our citizens. And most important of all, our prospects of passing on to our children stronger than ever the invaluable legacy of peace, cooperation and progress on the North American continent that we inherited from past generations are very good indeed.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Fisher. I noticed that you skipped a number of passages. And I am going to instruct that——

Mr. FISHER. May I put the written record in?

The CHAIRMAN. Exactly.

Mr. FISHER. Yes, sir. Thank you.

[The prepared statement of Mr. Fisher follows.]

PREPARED STATEMENT OF HON. RICHARD W. FISHER

ECONOMIC EFFECTS OF NAFTA

Mr. Chairman and Members of the Committee, thank you for holding this hearing on the effects of the North American Free Trade Agreement (NAFTA) on the U.S. economy, and for inviting me to appear here this morning, alongside two celebrated public figures.

As you requested Mr. Chairman, I would like this afternoon to address the impact of the NAFTA on jobs, wage rates, and industry, especially the American textile industry. I will be using many statistics and numbers in this hearing. I think it best to preface my statement by first stating that, perhaps more than most, I know what lies behind these numbers. I ran a business in the private sector for twenty years before being asked to serve my country. Second, I am a Texan who grew up in Mexico. I have spent a great deal of time in deep South Texas and in Northern Mexico on the very frontier of NAFTA. More importantly, however, I know what it is like to watch a father lose his job, or "be displaced" in the sanitary parlance of economists. I know what it is like to have two working parents. I was a "latch key kid" before sociologists coined the term. I know that behind every job number there is a human being, a family, a sense of self-worth and dignity.

It is against this background that I am here to tell you that NAFTA is a good thing. Like the music of Wagner, it is not as bad as it sounds, especially the version to be played by the witnesses who will follow me today, both of whom are gifted rhetoricians, far more skilled than I. We benefit from the NAFTA. We would be worse of without it. We should celebrate it, not condemn it.

NAFTA AT FIVE

Chuck Hayes, the CEO of Guilford Mills Inc. of Greensboro, North Carolina, a manufacturer of fabric, recently said about the NAFTA,

> "This just doesn't help Guilford, it's going to help the entire [U.S.] textile industry . . . The theory is simple: if garment makers can be lured to low-cost manufacturing sites in Mexico, they won't go to the Orient, where they end up buying fabric from textile manufacturers in Japan, South Korea or other Asia countries. If they set up in Mexico instead, they will buy their bolts of cloth from companies north of the border, such as Guilford Mills and its local plants. To me, NAFTA was truly the beginning of a renaissance for the textile industry in the United States."

Today, the benefits of the NAFTA extend all the way across the country—through textile mills in North Carolina, automotive brake factories in New Jersey, fishing resorts in Minnesota, and corn silos in Nebraska. The NAFTA is touching the lives of workers, farmers, consumers, mutual fund investors and entrepreneurs all over the United States.

We as a country are far better off today with the NAFTA than we would have been if we had let Mexico and Canada keep their borders closed to U.S. goods and services. The NAFTA and its side agreements level the playing field, contribute to outstanding U.S. economic performance, help create jobs and economic growth, and advance environmental protection and labor rights. We faced a question five years ago—should we, can we compete in foreign markets, especially the markets of our immediate neighbors?—and the American people have shown us that the answer is most definitely yes. NAFTA has proven to be right for America.

FOUNDATIONS OF THE AGREEMENT

Let me begin my testimony today with some broader context.

America's trade interests are worldwide. Our goods exports are almost equally divided among four major regions: Asia, Europe, Latin America and North America. Our trade agenda includes major initiatives in each region of the world, as well as in the multilateral system that links it together.

But it is fair to say that we have no relationship more important to our trade interests, to our fundamental interests in peace and security, and to the daily lives of our people, than those which are closest to home. This is true in the narrowest trade policy sense: Canada is our largest goods export market and Mexico our second. And it is true in the largest sense of the importance to all Americans of a peaceful, prosperous, environmentally healthy North American continent. And it is true for your home state of North Carolina, Mr. Chairman, as your state exports to the NAFTA countries have increased from $3 billion in 1993 to $5.8 billion in 1998, a 93 percent increase, reflecting a gain of $2.8 billion.

While the North American Free Trade Agreement is fundamentally a trade policy which should be judged on its economic results—the topic on which I will concentrate today—it is also an effort to preserve and strengthen this cooperative relationship with our neighbors and allow us to work more closely on issues beyond trade.

BEFORE NAFTA

As Ambassador Rufus Yerxa, my predecessor as Deputy U.S. Trade Representative, noted in his testimony to the Foreign Relations Committee in 1994:

> "NAFTA is good economic policy and good foreign policy."

That was the Administration's judgment, and that of the 104th Congress, because of its potential for fundamentally improving our economic relationship, and our cooperation in broader areas, with our two largest neighbors. It addressed significant barriers to American trade in Mexico, thus building upon the prior accomplishment of the U.S.-Canada Free Trade Agreement. These barriers included:

- Mexican tariffs on industrial goods averaging 10 percent, approximately more than twice the prevailing U.S. average of 4.0 percent.
- Numerous "buy-Mexican" provisions and export requirements for American companies operating in Mexico.
- Mexican markets closed to many American service providers, including financial services, telecommunications, the professions and others.
- Numerous import licensing requirements, combined with high tariffs for agriculture, which virtually proscribed American farm and ranch exports.
- Weak standards for protection of copyrights, patents and trademarks.
- Very serious border environmental problems, especially in water pollution and public health, and little history of cooperation between the U.S. and Mexico on these issues.
- Fundamentally different relationships between labor, government and business, with deeply ingrained roots dating back to the Mexican Revolution.

The NAFTA addressed all these issues. It created a fundamentally more equitable trade relationship, equalizing tariff levels and removing non-tariff barriers to service providers, ranchers and farmers. And it included innovative side agreements to address labor and environmental issues, recognizing that our interests in relations with our closest neighbors go well beyond technical trade issues.

RESULTS OF THE NAFTA

Agreeing to the NAFTA was a step which demanded courage and vision from all three countries. In the U.S., of course, NAFTA heightened the profile of trade agreements in the public eye, but also border environmental problems, disparity between wage rates, and fears that American factories would move south. Canadians and Mexicans faced their own fears about engaging even more directly with the most competitive workers, entrepreneurs and overall economy in the world.

The National Economy

But the results, five years later, justify the work. In the broadest sense, together with the continuous reduction of the federal budget deficit beginning in 1993, and the Administration's support for increased education and training, the expansion of trade in the past six years has helped us create the best economic environment our country has ever enjoyed. Since 1992:

- Our economy has prospered. Our gross domestic product has expanded from $7.1 trillion to $8.5 trillion in real terms (1998 dollars), and we have the benefit of the longest peacetime expansion in America's history.
- Our country has created jobs. Since the beginning of this Administration, employment in America has skyrocketed from 109.5 to 127.2 million, a net gain of nearly 18 million new jobs. Unemployment rates plummeted from 7.4 percent to the historic low of 4.2 percent reported last month. The unemployment rate in North Carolina has fallen to 3.1 percent, due, according to the Greensboro, North Carolina, News and Record (1/24/99, p. 25), "primarily by the creation of new jobs to assist with the record level of exports to Mexico," which "rose from $442.7 million in 1992 to $1.2 billion last year, according to the Wachovia North Carolina World Trade Index."
- Inflation has been kept in check and has declined since 1993. For example, consumer prices rose only 1.6 percent in 1998.
- The U.S. budget surplus of $70 billion for fiscal year 1998 was the first surplus since 1969, the largest surplus ever, and the largest surplus as a percentage of our GDP since the 1950s.
- And our families have enjoyed higher living standards. Since 1992, average wages have reversed a twenty-year decline and have grown by 6.0 percent in real terms, to $449 a week on average. This family prosperity is reflected, for example, in record rates of home ownership and record rates of investment by ordinary Americans in the stock market, especially through mutual funds. Today, according to the Investment Institute of America, 75 million Americans are invested in equity mutual funds, up from 25.8 million households in 1992. This is a revolutionary development unparalleled in all of history.

The NAFTA has contributed to this economic boom by creating fairer and more open markets for Americans. The U.S. economy has long been far more open to Mexican goods and services than Mexico has been to U.S. goods and services. This imbalanced equation is being changed under the NAFTA, which is opening new opportunities for our workers and industry to compete.

Since 1993, Mexico has abolished extensive non-tariff barriers that kept out U.S. goods, such as import licensing, and local content and trade balancing requirements. And Mexico's average tariff has already fallen to about 2 percent. As a result, two-thirds of our goods now pass into Mexico for sales free of any tariff. The NAFTA also builds on our ties with Canada—the world's largest bilateral trade relationship. Today, nearly all of the $330 billion in goods traded between Canada and the United States are traded duty-free.

Americans have taken advantage of these new opportunities. NAFTA has helped to strengthen the U.S. economy. During NAFTA's first five years, U.S. goods exports to our NAFTA partners combined increased by about $93 billion, or 66 percent, to about $235 billion. If we look at the countries individually, U.S. exports to Canada, our largest trading partner, increased by about $55 billion or 55 percent to $156 billion. U.S. exports to Mexico increased by about $37 billion or 90 percent to $79 billion. Total exports from the Tar Heel State alone to our NAFTA partners increased 93 percent over the last five years, reaching $5.8 billion in 1998.

Now, these are big numbers, so let me put our NAFTA export performance into proper perspective. In 1998, the $156 billion in goods we exported to Canada were as much as we exported to all the countries of East Asia put together. This year we will export five times as much to Mexico as to China. Our exports of $79 billion in goods to Mexico makes Mexico our second largest export market, after Canada.

Two weeks ago, while in Mexico, I drove past some of the neighborhoods where I remembered playing as a child. As I looked at those residential areas, at the parks with the lakes where we used to rent little boats, I saw those boats again, and I saw many children playing the same games. But what I also saw were potential customers for American products—clothes, cars, food—the whole range of goods we make. Our stellar export numbers, in spite of the dramatic exchange rate crisis and resulting deep economic downturn in 1995, show it is wrong to categorize Mexico simply as a poor country that cannot afford to buy the things we make.

In fact, Mexico is a developing and growing country with a very high propensity to purchase and consume U.S. goods and services to satisfy its needs, eager for a partnership to keep it developing, and willing to play by the rules imposed by the

NAFTA—even in the worst of economic times in 1995—so that trade is not a zero-sum game.

NAFTA: An Agricultural Success

The NAFTA has been tremendously successful in increasing U.S. exports of agricultural goods to Mexico and Canada. Our agricultural exports to Mexico have grown from $3.6 billion in 1993 to $6.1 billion in 1998, a 70 percent increase. Exports to Canada have increased as well, growing from $5.3 billion in 1993 to over $7 billion in 1998. Mexico is now the third largest market for U.S. agricultural exports, exceeded only by Japan and Canada. Agricultural exports to Mexico now account for more than 11 percent of all U.S. agricultural exports. Exports to Canada and Mexico combined now account for over one quarter of all U.S. agricultural exports worldwide.

Our export growth to Mexico has been most dramatic in the products subject to the most trade restrictions prior to the NAFTA. Bulk agriculture exports increased over a billion dollars between 1994 and 1998; intermediate exports were up over $300 million.

An indication of the importance of agricultural trade with Mexico comes from the most recent "Outlook for Agricultural Trade" published February 22, 1999 by the Department of Agriculture. USDA predicts declines in agricultural exports for fiscal 1999 in all major markets—except Mexico. The projections for Mexico are for an increase in FY 1999 of $700 million dollars in U.S. agricultural exports, which would mean Mexico's market will be worth $7 billion to the American economy.

As U.S. exports decreased last year due to the Asian financial crisis and depressed world commodity prices, the relative importance of the Mexican and Canadian markets to our farmers has grown dramatically. While Japan purchased $1.4 billion less in 1998 and exports to Southeast Asia fell by $900 million, exports to Canada and Mexico went up by about 10 percent, or roughly $1.2 billion in 1998.

State Results

The chart attached to my testimony gives a breakdown by state to show who is benefitting from the expansion of trade that has occurred since the NAFTA. Amazingly, our data reveals that every single state in the union, all fifty of them, have enjoyed increased NAFTA trade. [See Attachment 1]

This includes the home states of every Member of this Committee. I am happy to be able to mention that every state represented by the members of this Committee enjoyed significant gains from trade with our NAFTA partners. California, for example, saw its exports climb by $12.6 billion, a 95 percent increase. Even the smallest increase percentage-wise, recorded by Oregon at 29 percent, meant an extra billion dollars in increased trade. Exports to Mexico alone in some states shot up by 100 percent, 200 percent, and in some cases by more than 300 percent over the last five years. North Carolina's exports to Mexico, for example, increased 333 percent, growing from $398 million in 1993 to over $1.7 billion in 1998. [See Attachment 2]

As a result, we hear of stories like that of General Time Corporation of Norcross, Georgia, a small manufacturer of clocks, which saw its sales to Mexico increase 800 percent in 1998, thanks to the reduction in Mexican tariffs under NAFTA.

Likewise, Goulston Technologies of Monroe, North Carolina, a small manufacturer of lubricant for synthetic fibers, witnessed its export sales to Mexican fiber producers multiply more than 250 percent since the passage of NAFTA, and so increased its staff here in the United States significantly in order to better serve the Mexican market. After the passage of NAFTA, tariffs on most of Goulston's products dropped from 15 percent to zero, giving it a distinct advantage over non-NAFTA competitors.

NAFTA AND JOBS

Each of these stories mean new opportunities for Americans to find better jobs and improve family standards of living. As a whole, U.S. unemployment has dropped from 6.7 percent in January 1993 to 4.2 percent here in America in March 1999—a lower rate than that of any other industrial nation. A lot goes into that figure, but NAFTA and its facilitation of trade opportunities are part of it, everywhere in the country. It represents:

- Taylor Dunn, a manufacturing firm in Anaheim which makes electrical vehicles, adding fifty workers because NAFTA cut Mexico's tariff on their products from 25 percent to zero.
- Multiplier Industries in Mt. Vernon, New York, increasing its employee base by 25 percent as its exports of cell phones and two-way radios to Canada and Mexico rise.

- Farmland Industries of Kansas City, the largest farmer-owned cooperative in North America, who sold $50 million in wheat, corn and soybeans to Mexico before NAFTA, today is exporting $450 million and include beef and pork.

If we look just at the period since NAFTA came into effect, in January 1991 total non-agricultural employment was 112.3 million. In March 1999, that figure had risen to 127.7 million. In other words, that's 15.4 million more Americans with the NAFTA who are able to enjoy getting a paycheck from a job that didn't exist before. If you look at the composition of those numbers, we had 18.1 million jobs in manufacturing in January 1994; in March 1999 that number had risen to 18.4 million. That's 305,000 more Americans in good jobs, contributing to our industrial base.

The paychecks these workers are now able to bring home are getting bigger, too. Prior to the NAFTA in 1993, real weekly earnings were $245.87, by February 1999 the average American paycheck had risen to $271.77. That's a gain of 6.6 percent. And it's not because Americans have to work longer—real hourly earnings are up as well, from an average of $7.39 in 1993 to $7.83 in February 1999, a gain of 6 percent. We're not satisfied with this; we know we can do better. But the fact is, after a long period of stagnation, wages are finally going up in real terms.

This reflects in part the effects of the NAFTA. The Administration estimates U.S. goods exports to our NAFTA partners now support more than 2.6 million higher-wage jobs. Based on 1998 trade figures, we estimate U.S. exports to Canada and Mexico support over 600,000 more jobs now than in 1993. U.S. exports to Canada support an estimated 1.7 million jobs, over 300,000 more jobs than in 1993. Exports to Mexico in 1998 supported almost a million jobs up over 350,000 jobs from 1993. Generally speaking, jobs supported by exports pay 13 to 16 percent more than other jobs in the United States. So, by expanding exports, NAFTA contributes to the creation of high wage jobs.

NAFTA alone has not created all jobs attributed to increases in exports, and we do not claim that the more competitive environment existing since NAFTA has not claimed some jobs. But shifts in trade flows is just one small factor responsible for job dislocation in the United States. On the whole, the record since NAFTA's passage—declining unemployment, rising wages, rapid growth and the world's most competitive large economy for 5 years as judged by independent experts—speaks for itself.

Looking at individual states, we see similar stories. In North Carolina, total non-agricultural employment has risen from 3.3 million in January 1994 to 3.8 million in February 1999, a gain of over half a million jobs (522,600). The unemployment rate in North Carolina has fallen from 4.4 percent in January 1994 to 3.1 percent in February 1999, well below the national average.

Manufacturing employment has declined somewhat in North Carolina, Mr. Chairman, going from 853,700 in January 1994 to 816,200 in March 1999. Total textile mill employment has declined, going from 204,600 in January 1994 to 162,000 in February 1999, as has total apparel employment (from 70,100 to 44,700).

Before anyone jumps to the conclusion that the NAFTA is the cause of the decline in textile and apparel employment in North Carolina or anywhere else, it is imperative that we examine the changing broader economic picture and specifically what role the NAFTA has played in the textile and apparel sector and its trade. Bear with me because this is a topic we examine a bit later in my testimony.

NAFTA AND SPECIFIC INDUSTRIAL SECTORS

In your letter inviting USTR's testimony, the Committee requested USTR address the industries which have been most affected by the NAFTA. In 1997, the latest time frame for which such a comprehensive sector by sector analysis was completed, the Administration conducted a comprehensive study as required by Congress of the operation and effects of the NAFTA in 11 industrial sectors, and the agricultural commodities sector. Those industrial sectors were: automotive vehicles and parts; chemicals and allied products; computer equipment and software; four consumer products sectors, namely, household appliances, household and office furniture, printed products, and recreational equipment; electronic components; processed foods and beverages; telecommunications equipment; and textiles and apparel. The study examined U.S.-Mexico trade and investment patterns in the 12 product sectors, and revealed that:

- Two-way NAFTA trade increased significantly in virtually all sectors.
- NAFTA's reduction in tariff and non-tariff barriers contributed to increased U.S. exports of motor vehicles, electronic components, textiles and apparel, computers, chemicals, and a range of agricultural products, and were a factor in increased U.S. imports of Mexican textiles and apparel and light trucks.

- U.S. exports grew in nine of 12 sectors, in some cases by substantial margins, despite Mexico's peso devaluation in late 1994 and subsequent deep recession.
- More importantly, U.S. exports in eight sectors enhanced their share of Mexico's import market since 1993. Market share was flat in three other sectors. Market share analysis suggests that the Mexican tariff reductions under the NAFTA provided U.S. exports an advantage compared to exports from outside North America.
- Mexican exports to the United States also increased in volume and in shares of the U.S. import market across a range of sectors. These increases were attributable to factors other than the NAFTA in most cases.

  —Major influences on imports from Mexico were lower prices due to Mexico's peso devaluation and efficient joint U.S. and Mexican manufacturing operations that further cut the cost of Mexican products.

  —In key sectors, like auto parts and textiles and apparel, Mexican market share increases reflected competitive advantages accruing to U.S. and Mexican producers as a result of co-production arrangements, which were enhanced by the NAFTA.

  —With very few exceptions, such as textiles and apparel and light trucks, average U.S. tariffs applied to Mexican imports were already at low levels, or at zero. In fact, 50 percent of imports from Mexico prior to the NAFTA entered the United States duty free. Thus, NAFTA tariff reductions did not account for increased imports from Mexico in many sectors.

  —A further indication that Mexican imports did not displace U.S. production is that U.S. production during the period was strong and growing in all 12 sectors.
- Lowered Mexican tariffs and other barriers through the NAFTA encouraged market-driven coordination of production across the U.S.-Mexican border.

  —In major sectors such as auto parts, computers, telecommunications equipment, and textiles and apparel, products made in efficient joint manufacturing operations on both sides of the border are displacing imports from other countries in thc U.S. market. In the case of textiles, for example, Asian production, which uses no U.S. fibers or inputs, has been replaced by Mexican and Canadian production, which does.

  —Moreover, many other inputs from Mexico—such as apparel, motor vehicles, computers, and telecommunications equipment—contain substantial levels of U.S. content.
- Capital expenditures in the United States exceeded U.S. direct investment in Mexico by large margins across the range of sectors. Burlington Industries, for example, is planning on capital expenditures of $300 million for plants in Mexico, while spending $350 million to upgrade its plants in Mississippi and other areas of the United States.

NAFTA AND TEXTILE & APPAREL INDUSTRIES

Mr. Chairman, your letter of invitation noted that this Committee is particularly interested in NAFTA's effect on the textile industry, therefore, I will focus on this sector in some detail.

NAFTA Textile Provisions

The textile industry in the United States was a strong supporter of NAFTA when the agreement was negotiated and when it came before Congress. There were several reasons for this. The most important were:

- NAFTA's strong rules of origin, which requires regional input, generally from the yarn production stage onward, to qualify products for preferences under the agreement;
- the opening of Mexico's market (of some 90 million people) to U.S. exports of textile products, on a reciprocal basis; and
- the Customs enforcement provisions, which work to ensure the integrity of the agreement, and additionally, establish mechanisms for the NAFTA parties to cooperate to prevent illegal (extra-regional) textile transshipment from entering NAFTA markets.

The five years that have passed since NAFTA came into force have proven the merits of this agreement for the textile industry. In a statement to the Ways and Means Committee in September, 1997, Carlos Moore, Executive Vice President of the American Textile Manufacturers Institute, said:

> "In ATMI's view, NAFTA is the model of what a trade agreement should be: fair, balanced, reciprocal. By any measure, NAFTA has provided significant benefits for the U.S. textile industry . . . [A]ll the NAFTA partners

have increased their exports of textiles to each other. This is what NAFTA promised and this is what NAFTA delivered to its textile industries."

General Textile and Apparel Trade

In addition to stimulating U.S. textile exports, the NAFTA rules of origin result in a high concentration of U.S. fabric and other inputs in apparel imports from Mexico. Under NAFTA, Mexico has become our largest supplier of imported apparel, and almost 60 percent of the value of U.S. textile and apparel imports from Mexico (in 1998) were comprised of U.S. content (for example, formed and cut fabric). Imports from Mexico in 1998 were almost five times the 1993 level, on a quantity basis, while imports from China, Taiwan, Hong Kong and Korea increased by only one percent during that period. Imports of textiles and apparel from Mexico and Canada were 11.8 percent of our total sector imports in 1993 (in quantity terms) and imports from China, Korea, Hong Kong and Taiwan were 32.5 percent of the total that year. By 1998, imports from our NAFTA partners had grown to 23.2 percent of our total sector imports and imports from China, Korea, Hong Kong and Taiwan had declined to a share of 20 percent. Mexico and Canada are now our first and second largest suppliers of textiles and apparel (in volume terms).

In contrast to the trade with Mexico, textile and apparel imports from our large, traditional Asian suppliers contain virtually no U.S. inputs. NAFTA has thus shifted production and trade to the North American region, which created significant opportunities for U.S. producers, helped to preserve jobs in the United States, increase efficiencies, and to strengthen the industry's global competitiveness.

American-Made Textile & Apparel Exports

NAFTA has also helped promote exports of American-made textiles and apparel. Prior to NAFTA, Mexico's average tariff on U.S. textile and apparel products was 16 percent, whereas the average U.S. tariff on imports from Mexico was 9.1 percent. Under NAFTA, tariffs were immediately eliminated on over one-fifth of U.S. exports to Mexico, and by January 1, 1998, Mexico has eliminated tariffs on 93 percent of U.S. yarn and thread exports, 89 percent of U.S. fabric exports, 60 percent of U.S. exports of made-up textile products and 97 percent of U.S. apparel exports.

U.S. exports of textiles and apparel to Mexico increased by 182 percent between 1993 and 1998, increasing from $1.6 billion to $4.5 billion. U.S. shipments to Canada during that period rose by 72 percent to $3.4 billion.

Added together, this means in just five years, our exports of textiles and apparel products to our NAFTA partners more than doubled, reaching almost $8 billion in 1998, of which over $1.3 billion came from North Carolina alone, up from $366 million five years ago. [See Attachment 3]

Mexico's exports to the United States increased from $1.8 billion in 1993 to $7.5 billion in 1998. Canada's exports to the United States rose from $1.1 billion to $3.1 billion during this period.

In 1998, U.S. exports to Canada and Mexico accounted for 47 percent of total U.S. sector exports, up from 36 percent in 1993, reflecting a combined export increase of 115 percent to NAFTA partners during the period. U.S. sector exports to Canada and Mexico were more than fifteen times greater than U.S. exports to China, Taiwan, Hong Kong and Korea combined, and more than three times as large as exports to Japan and the (15-nation) European Union combined. NAFTA accounted for 75 percent of the total increase in U.S. textile exports between 1993 and 1998.

Employment in Textiles & Apparel

With respect to employment in textiles and apparel, production jobs have been on a downward trend for nearly three decades. This development is related to the effects of enhanced productivity, technological improvements, international competition and other factors. Notably in the textile industry, total production has increased since passage of NAFTA. Thus, Americans are making more textiles today than before NAFTA. We know this much: if we didn't have the NAFTA, there would be less employment in the textile industry in America today.

Employment has continued its long-term decline, but wages in the industry have risen very substantially—in fact, more rapidly than wages for Americans in general—since NAFTA's passage. Between 1973 (the peak year for textile and apparel employment) and 1993, the number of production workers in the U.S. textile and apparel sector declined from 2.4 million to 1.7 million. Between 1993 and 1998, employment declined by 297,300 to a level of 1.4 million workers. At roughly the same time, however, the following occurred:

- the combined value of shipments by the U.S. industry rose from $148 billion in 1993 to approximately $164 billion (estimated) in 1998;
- productivity in the industries rose by 18.3 percent;

- wages for production workers in the textile industry increased 17 percent between 1993 and 1998; and
- wages for production workers in the apparel industry rose 20 percent.

It is true that the U.S. faces a growing trade imbalance in textiles and apparel (growing from $31.5 billion in 1993 to $47.5 billion in 1998), but it is important to recognize that the trade balance can hardly be identified as the principal cause of job loss in the industry, since real production in the U.S. increased slightly over the period.

A major factor in all this is technology. The loss of apparel jobs has been primarily among assembly workers, while employment levels for more-skilled, higher paying jobs such as cutting, computer-aided design and manufacturing (CAD-CAM), marketing, product development and distribution have remained stable. In addition, advances in productivity have to a degree allowed U.S. textile and apparel manufacturers to maintain or increase output through automation and technological improvements while requiring fewer workers. And increased competitiveness resulting from restructuring, technological improvements and production sharing has enabled the industries to increase the value of their shipments.

To be internationally competitive in the global marketplace, U.S. producers of textiles and apparel have improved their productivity, concentrated on specialized products, and established a presence in a growing number of foreign markets. NAFTA has enabled U.S. producers to optimize production and manufacturing investments in North America and has generated increased economic activity and enhanced export prospects for textile and apparel producers in the United States. The NAFTA has made a significant contribution to our industries' ability to maintain global competitiveness, a critical long term goal.

All other things being equal, the NAFTA has helped stem the job losses in textiles and apparel, given that it has improved the competitive situation of the industry regionally and globally. Or, to put it another way, in the absence of the NAFTA, and all other things being equal, the competitive position of the industry would likely have eroded and the likely job losses greater.

PROMOTING INVESTMENT IN THE U.S.

The experience of the textile industry, while unique in certain respects, thus offers some larger lessons. On the whole, the NAFTA has helped create a more competitive North American market, stimulating more investment that benefits us all. Investment decisions can now be made to a greater degree on rational economic and commercial grounds than was the case prior to the NAFTA.

Our largest trade sector with Mexico, autos and auto parts, is a significant example. Prior to NAFTA, Mexico's trade regime set extremely high import barriers and essentially forced manufacturers to invest in Mexico if they wanted to sell in Mexico. This created a structural trade deficit in autos and parts which we are still addressing today.

In 1993, the last year before NAFTA was implemented, we shipped only 3,000 new passenger vehicles to Mexico. By 1997, U.S. exports of motor vehicles had increased over 750 percent, to over 140,000 units. Mexico is now our second largest auto export market.

Imports from Mexico have also grown from 330,000 motor vehicles to 790,000 units in 1997. While substantial, the rate of growth (139 percent) is far less than the rate of growth enjoyed by our exports (750 percent).

However, what is more significant is the recent reversal of trade and investment trends that began well before the NAFTA. In 1997, U.S. exports of both vehicles and parts grew much more rapidly than imports—by nearly 39 percent compared with import growth of 11 percent. For vehicles only, exports increased by 55 percent in 1997 over 1996, while imports increased 2.3 percent.

U.S. employment in the motor vehicle and equipment sector increased by over 14 percent from 1993 to 1998, rising by over 120.000 new jobs. In terms of investment, the United States ranked number one worldwide for automotive investment from July 1995 through June 1997. Mexico was tenth, Canada ninth.

Thus, NAFTA has helped raise, rather than lower, capital investment in the United States. The amount of U.S. direct investment abroad, on a historical cost basis, reached $25 billion in Mexico and $99 billion in Canada, according to the latest figures available. Part of this is because NAFTA is eliminating requirements that forced U.S. firms to invest in Mexico if they hoped to sell in Mexico. In contrast, the total amount of U.S. direct investment abroad has reached $860.7 billion. That means our investment in Mexico is less than 3 percent of our interests worldwide. The idea that we are facing a massive shift of capital investments to Mexico, and the jobs that go with them, is simply wrong.

All of these figures, incidentally, pale in comparison to the stock of non-residential investment here in the U.S.A., which amounted to $8.7 trillion in 1997, the latest year data is available. We are not creating conditions for jobs to move overseas—we are creating conditions for firms and workers to prosper right here in America.

NAFTA AND THE TRADE BALANCE

Let me also address the relationship between NAFTA and our trade balance. A number of observers have claimed the bilateral trade deficits that we have with Mexico and Canada are a function of the NAFTA and its implementation. However, economic analysis shows no sound rationale for this assertion.

The major causes of the shift to a bilateral deficit with Mexico were macroeconomic and exchange rate forces: the sudden and unexpected peso devaluation and the subsequent depression in Mexico when domestic consumption declined 15 percent in 1995. In addition, the U.S. economy was growing, in contrast, and consuming more than it produced. The NAFTA, if anything, was a force helping to limit the deficit—and certainly any decrease in U.S. exports—given that the NAFTA continued to require that Mexico reduce its barriers to U.S. goods and services.

It is important to remember that Mexican tariffs were far higher than U.S. tariffs and U.S. tariffs were very low on Mexican goods even before the NAFTA. Therefore, the elimination of this disparity is in our interests. You may recall that in the early 1980s Mexico went through a financial crisis, and in response, raised tariffs and imposed import licensing restrictions that sharply cut U.S. exports—by 50 percent—with a resultant decrease in estimated jobs supported by those exports to Mexico of over 200,000. The NAFTA protected us from a similar outcome in the 1994–95 crisis.

A study by an economist at the Dallas Federal Reserve, for example, supports this view on the deficit issue. Mainstream economic thought will not attribute the bilateral deficit with Mexico to the NAFTA.

PROTECTION DURING THE ASIAN FINANCIAL CRISIS

The NAFTA's role in protecting us from the worst effects of the Asian financial crisis has been at least as important as its role in the 1995 peso crisis.

By bringing down, keeping down, and even lowering further, tariffs and other barriers, it allowed our exports to Mexico and Canada to grow by $13 billion in 1998. Exports to Mexico were up 11 percent last year from 1997; exports to Canada were up 3 percent. Meanwhile, our exports to the entire world were down by about 1 percent in 1998. Without our exports to the NAFTA countries, our overall exports would have been down 4 percent. Our NAFTA partners now account for a third of all our exports, and growth in our NAFTA trade has helped to shield our economy from the Asian financial crisis.

We now export three times as much to Canada as to China, Hong Kong and Taiwan combined. As our exports to the Pacific Rim dropped by $26 billion last year, this growth in exports to our NAFTA partners protected jobs in manufacturing, farm and service sectors, and incomes of blue and white collar workers, Democrats and Republicans, whites, blacks, and Hispanics—all across America.

NAFTA & THE ENVIRONMENT

Let me now turn away for a moment from the direct economic issues associated with NAFTA.

In our relations with our immediate neighbors, we have concerns that extend well beyond trade. We expect that growth should come hand in hand with a higher quality of life and the advancement of basic values—clean air, clean water, public health and protection for our natural heritage; safety, dignity and elementary rights for working people; a common front against crime and corruption. NAFTA has allowed us to improve our working relationship with Mexico and Canada in these areas as well. We have huge challenges that are not yet addressed, but the NAFTA and its side agreements put us in a better position to deal with them.

Environmental protection is an example. Through the Commission on Environmental Cooperation, created by NAFTA's environmental side agreement, we have reached agreement with our neighbors on conservation of North American birds and created a North American Pollutant Release Inventory. The CEC has also helped us devise regional action plans for the phase-out or sound management of toxic substances, including DDT, chlordane, PCBs and mercury. Important cooperative work is also underway on environmental enforcement, as the Environmental Protection Agency has trained hundreds of Mexican environmental officials in the past five years, and Mexico has substantially increased its budget resources and inspections related to environmental law compliance since the NAFTA passed.

The NAFTA is also helping our countries reduce the costs of environmental protection. The United States and Canada, for example, have established protocols for the coordinated review of certain new pesticides, such as those that are designed to be safer replacements for older, more risky pesticides. By sharing data review responsibilities, joint reviews lower regulatory costs, expedite registration of safer pest-control tools, increase the efficiency of the registration process, and provide more equal access to pest management tools by farmers across North America. Joint reviews have been announced for diflufenzophr, which could significantly reduce the total application of herbicides on corn in the United States (with most of the reduction resulting from the decreased use of atrazine, a chemical that reaches groundwater), and cyprodinil, which is effective against a range of disease organisms including scab on apples and blossom blight and brown rot in stone fruits. Cyprodinil is a reduced-risk chemical pesticide, presenting lower risks to human health than traditional chemical pesticides.

Likewise, the North American Development Bank has begun fourteen projects in border towns which will reduce water pollution and improve health on both sides of the border. To choose an example close to my home state, Juarez broke ground last November for its first waste-water treatment plant. That is going to mean better health and cleaner water for a million people in Juarez, another million in El Paso, and for towns and villages all along the upper Rio Grande. A similar project has opened on the American border near San Diego and Tijuana, which will remove effluents from the water, which were being emitted well before NAFTA.

In addition, the environmental side agreement and the BECC/NADBank agreement have provided important avenues for citizen participation on environmental matters. Pursuant to a mechanism established under the environmental side agreement, citizens and citizen groups in all three countries have filed submissions with the CEC containing claims that there has been a failure to adequately enforce the environmental laws of one of the NAFTA countries. One of the submissions led to the preparation of a factual record on the development of the pier in Cozumel, Mexico. Following the issuance of the factual record, the Mexican government declared the area of the Cozumel Reef a national marine park and stated its intent to implement a management study of Cozumel Island. The BECC, the NADBank and the CEC meet regularly with the public and have created mechanisms for the inclusion of public input in decision-making.

In this important area of environmental improvement, as with the reduction of barriers to trade in goods and services, NAFTA is incomplete—it remains a work in progress. Yet, as the *Dallas Morning News* pointed out in its editorial on January 4 of this year, NAFTA is "the 'greenest' commercial pact ever, and the U.S., Canadian and Mexican environments are better off with it than without." NAFTA has represented a significant step forward in the environmental aspects of trade.

NAFTA & LABOR

On the labor front, NAFTA's Agreement on Labor Cooperation has generated our largest cooperative effort on labor anywhere in the world. It covers occupational safety and health, employment and training, industrial relations, worker rights and child labor and gender issues, and allows citizens to draw attention to labor practices and improve working conditions.

This has led to important tangible benefits. For example, a labor tribunal reversed itself and granted a union registration in the Maxi-Switch case; a secret ballot union representation vote was conducted for the first time in Mexico in the GE case, and by government employees in the Fisheries Ministry. Mexico's Federal Government intervened in an effort to resolve the very contentious Han Young case; and the Mexican Supreme Court struck down state restrictions on union organizing as unconstitutional. In addition, Mexico has taken other steps to advance the rights of workers, including promulgating new safety and health regulations and nearly tripling funding for enforcement of worker rights, including in child labor.

Likewise, the NAALC has helped stimulate citizen involvement in labor issues, through the filing of twenty separate submissions to the labor commission. Submissions in 1998, for example, led to ministerial consultations on freedom of association and safety and health issues in the Mexican states of Baja California Norte and Mexico. Earlier consultations led to a trilateral conference on the labor rights of women workers in North America, and a work program of trilateral seminars in Mexico City, San Antonio, and Monterrey on union registration, certification, elections, recognition and union democracy.

FUTURE OF THE NAFTA

Mr. Chairman, the NAFTA is a work in progress. It will not be completely implemented until 2008. We are monitoring progress closely and we are learning from our experience, using it to improve the agreement as it goes into force. Our trilateral work program has more than 25 committees and working groups, each advancing the work of the Agreement. We have made an effective trilateral work program a priority and put in place a new high level oversight mechanism within our three Governments.

No trade agreement, of course, can put an end to all our disputes. We have yet to resolve our concerns on land transportation with Mexico, for example, but we continue to work on the issue. Furthermore, we have very important issues pertaining to high-fructose corn syrup and sugar, and telecommunications barriers with Mexico. We want to work together to address the nemesis of piracy in the area of intellectual property rights, particularly copyright piracy. And we need to further perfect NAFTA's potential to improve the environment and labor conditions of its signatories, especially Mexico.

With Canada, we have serious concerns on a range of agriculture matters and major market access impediments facing our magazine publishers and other media and entertainment industries. Furthermore, we have the ongoing challenge of enforcing our largest bilateral sectoral agreement anywhere in the world—the U.S.-Canada Softwood Lumber Agreement.

But through the cooperative framework we have built through the NAFTA, we have avoided or solved many disputes. For those that remain, the question is how far we have to go to solve them and how fast to do it.

CONCLUSION

In conclusion, Mr. Chairman, we can be very pleased with the record of NAFTA five years after its passage.

Five years ago, we predicted that this agreement would mean growth; better and more jobs; rising standards of living; and a higher quality of life. Today, we can say that the agreement has been an invaluable force for all these objectives. Our governments are working more closely and accomplishing more than ever before on environmental protection, workplace safety, and all the other issues that affect the daily lives of our citizens. And the agreement allows us to pass on to our children, stronger than ever, the invaluable legacy of peace, cooperation and progress on the North American continent that we have inherited from past generations.

The bottom line on NAFTA? It has helped our country prosper. It has facilitated, through a reduction in barriers, a dramatically expanded volume of American-made goods and services sold to Canada and Mexico. It has reduced the damage the Asian financial crisis has caused in our country and our continent. It has encouraged us to work more closely than ever before with our neighbors—as we have to if we are to ultimately succeed—on crucial topics from narcotics to environmental protection and improvement of labor standards. It is a winner. I am proud of it. And I am determined to tell its story wherever I go.

Thank you very much.

[ATTACHMENT 1]

Biggest Winners with the NAFTA—by State

Export Growth Rate (1993–1998)		1998 Share of Export Market		Export Value Growth 1993–1998 (in billions)	
Alaska	128.2%	Vermont	90.7%	Texas	$14.4
Nevada	123.2%	Michigan	72.5%	California	$12.6
Kentucky	108.5%	Montana	65.5%	Michigan	$12.0
Alabama	105.1%	Indiana	64.1%	Illinois	$5.0
Kansas	96.8%	North Dakota	63.2%	Ohio	$4.8
North Carolina	95.8%	Iowa	56.8%	New York	$4.8
California	95.1%	Ohio	52.6%	Indiana	$3.2
South Carolina	95.1%	Mississippi	52.1%	Pennsylvania	$2.9
Louisiana	93.7%	Texas	51.8%	North Carolina	$2.9
Mississippi	91.9%	South Dakota	50.0%	Minnesota	$2.1

Source: Massachusetts Institute of Social and Economic Research (MISER).

Various reasons account for the states' performances. The states with the largest economies and industrial sectors (California, Illinois, Michigan, New York, Ohio, Pennsylvania, Texas) exported the most, in terms of value, to our NAFTA trading partners. Border states (California, Texas, Michigan, Montana, North Dakota, Vermont) take advantage of their proximity to our NAFTA partners and, along the southern border, the maquiladora industry. Canada and Mexico are the largest export markets for these states. The automotive industry fosters exports from Michigan and Texas. Opening of agricultural trade has sped the growth of exports for large agricultural states (Arkansas, Wyoming, Hawaii, Indiana, Iowa, Kansas, North Dakota, and South Carolina).

[ATTACHMENT 2]

Increases in Exports, by State—1993–1998

[In millions of dollars]

	NAFTA				MEXICO			
	1993	1998	Gain	Percent Increase	1993	1998	Gain	Percent Increase
California	$13,298	$25,942	$12,644	95%	$5,700	$11,966	$6,266	109%
Connecticut	2,036	2,663	627	31%	364	597	233	64%
Delaware	850	1,323	473	56%	179	325	146	81%
Georgia	2,015	3,594	1,579	78%	360	1,253	893	248%
Indiana	6,772	9,975	3,203	47%	1,239	3,349	2,110	170%
Kansas	776	1,528	752	97%	196	524	328	167%
Massachusetts	3,366	4,382	1,016	30%	393	626	233	59%
Minnesota	2,594	4,713	2,119	82%	256	928	672	262%
Maryland	820	1,122	302	37%	102	371	269	264%
Missouri	1,934	3,026	1,092	57%	577	1,288	711	123%
Nebraska	450	742	292	65%	65	161	96	150%
North Carolina	2,979	5,834	2,855	96%	398	1,723	1,325	333%
Oregon	1,100	2,050	950	86%	114	499	385	337%
Tennessee	2,549	4,341	1,792	70%	703	1,422	719	102%
Wisconsin	2,682	4,433	1,751	65%	314	575	261	83%
Wyoming	49	88	39	81%	5	7	2	30%

[ATTACHMENT 3]

[In millions of dollars]

Exports	1993	1998	Percent Gain
North Carolina's Exports of Textiles:			
Canada	$165.1	$441.7	168%
Mexico	39.2	200.4	411%
North Carolina's Exports of Apparel:			
Canada	81.0	160.6	98%
Mexico	80.8	563.2	597%

The CHAIRMAN. Now, I am informed that I was handed a wrong schedule as I came in hastily. Tell me exactly what the next two are, Mr. Buchanan and Mrs. Dabbs. All right.

Thank you very much, and I appreciate your coming. And we will have another discussion one of these days.

Mr. BUCHANAN. Thank you, Mr. Chairman. I appreciate the opportunity to, if you will, move around and go ahead of some of these other distinguished witnesses. I want to say that Senator Ervin of North Carolina became a good friend of mine after I testified in front of his committee for about 5½ hours back in 1973 under somewhat more strained circumstances.

Let me yield. Did you want to make your statement—why do we not let this young lady make her statement first about the situation that happened to her, Senator?

The CHAIRMAN. Very well.

We welcome you, ma'am. And you may proceed. We have sort of jousted about here because of a hectic schedule in the Senate, and I was a little bit late. But we are glad to have you here. We thank you for coming. And you may proceed.

Mrs. DABBS. Thank you.

STATEMENT OF MRS. VONTELLA DABBS, HUMAN RESOURCES ASSISTANT, CATAWBA PLANT OF DELTA MILLS MARKETING CO., MAIDEN, NC

Mrs. DABBS. Mr. Chairman, Senators, I thank you for allowing me the opportunity——

The CHAIRMAN. Pull the microphone a little closer to you, please, ma'am.

Mrs. DABBS. Mr. Chairman, Senators, I thank you for allowing me the opportunity to come before you to express my concerns about foreign trade and what it is doing to the textile industry in my community.

My name is Vontella Dabbs, and I would like to begin my presentation today by sharing the letters that were written by myself and my husband, upon which allowed me the honor to stand before you today.

"Dear Honorable Jesse Helms. Our jobs are going under. What would you do if your higher up came up to you on Monday morning and notified you that as of 5 p.m., you would no longer have a job? How would you take care of yourself and your family, if you were told that your job is being moved to another country where labor is cheaper, and that's why you will no longer have a job? How would you feel?

"Save our jobs. Our jobs are being lost due to the cheaper labor markets that surround us now. If we, as Americans, lose our jobs here in the United States, what will become of us? America has been known as the land of the free and the home of the brave. How can this be true if we no longer have any way of surviving?

"As you are well aware, I'm certain, there are more and more people of different nationalities moving to the United States every day. Will these people be forced to move back to where they originated from because the United States is going under? Textiles has been the No. 1 means of survival for most of the American people for years and years. This is how the majority of the people surrounding the area I live in have put food on the table, clothes on their children's backs, and kept a roof over their heads.

"Having a job to go to and to plan to save for their children's future has been the only hope for their children to be able to attend college and hopefully have a better job than themselves. Although every parent hopes their children will have a better life than they have, this will not be possible if our jobs are lost.

"The hardest part of it all would not be the fact that your plant may be shutting down. To have to accept the fact that it is being lost due to cheaper labor in another country is sad. Mexicans have been coming to the United States for years for a better life for themselves and their families. Will they be forced to move back to the life they left?

"If we lose our jobs, this is exactly what will happen. America will go down under and no longer exist. With no jobs, there will be no means of survival, no need to have businesses, grocery stores, shopping centers, entertainment of any sort. There will be no money for anyone to afford even the bare necessities of livelihood.

"Without textile jobs in the United States, we will be forced to move. Why will we need government if there are no businesses or industries to run? What has happened to the American dream, the opportunity to go to college, get a job, buy a home, get married and have a family? A college education is the only thing a person would have left out of the above, if our jobs are lost.

"There would be no job to go to every day. The home one just purchased would be lost due to the inability to pay the mortgage. Your family would no longer be a happy one, due to the task of looking for good, steady work and trying to keep your children from starving.

"Would your family be forced to live in one State while you live in another to survive? One would have to do what is necessary to try to hold the family together.

"Please consider the effect losing our textile jobs would have on America alone. We need our jobs. And with the economy like it is today, many people are already working full- and part-time jobs to make ends meet and to save for their child's college education.

"How does someone who just got married come home and tell his wife, who happens to be with child, 'Honey, I lost my job today. No, I didn't get fired. They're moving our jobs to other countries for cheaper labor. Honey, the answer to your question is: I don't know how we're going to make it.' "

I would like to follow that letter that I wrote with one that my husband wrote in support of myself.

"Dear Honorable Jesse Helms. My wife has made her living working in the textile industry for the past 8 years and 5 months. Recently she was told that her place of business is up for sale. Later she found that it is due to the cheaper labor market we are faced with today.

"We need textile jobs still today. Not only do they provide yarn for government paraphernalia, but also the denim most of us have worn for years. How will the United States of America survive without textiles?

"Some Americans have only had job experience in the textile industry. What will common, every day, middle- and lower-class people do for survival, if our jobs are swept from under our feet? I'm sure you wouldn't want to go to work one day and find that the only type of job you've ever known how to do would no longer exist.

"We need our jobs. Please consider that some of us are less fortunate than others and were not blessed to have a job title such as lawyer, doctor or nurse. Save our American textile jobs, as well as others. It is the only means of survival for some people. Whether the job is white collar or blue collar, everyone in a family is affected when a parent or the only parent loses his or her job for any reason."

I would now like to read my presentation for this afternoon.

I was born and reared in North Carolina, in the small town of Maiden. I currently am employed as a human resource assistant in the Catawba plant of Delta Mills Marketing Co., located in Maiden.

Our plant makes cotton yarns that we use to weave cloth for the apparel manufacturers. Many of you probably wear pants that have been woven by my company, if you wear any kind of khaki pants.

I come to you today not as an expert in any field, not as a politically motivated person, but simply as an American that is deeply concerned for both my future and the future of my family and friends. I cannot quote you statistics or give you fancy computer-generated data to support some theory about foreign trade. What I can give you are honest and heart-felt feelings about what is going on in our community as related to the foreign trade agreements and the people that work in textile plants.

Maiden, NC, the very small town I grew up in, is located in Catawba County, just a short distance from the Gaston, Lincoln and Mecklenberg County areas of North Carolina. Being just 30 miles away from Charlotte, NC, Maiden is closely located to one of the most progressive and business-friendly regions of the country.

For the ones of you not familiar with North Carolina, Maiden is located right in the middle of where the furniture and textile industries took root and grew during the past century.

There is not a family in our area that has not been part of, or at least influenced by, the textile industry over the years. At one time, the payrolls from textile plants in the Gaston, Lincoln and Catawba County areas were the main forces that drove the economy.

I come before you today to ask for your help. I am not here asking for a handout or any special treatment. The textile industry has for many years been in a transition toward modernization and meeting the demands of today's business environment.

In my opinion, we have done a pretty good job of that. We have reduced cost, increased production, protected our environment and given job security to thousands of workers in modern, safe plants. Yes, we still have some plants, and even some companies, that have chosen not to keep up with the global business environment. But for the most part, the companies that are smart have done whatever has been necessary to be part of the modern, global business world.

Today these modern textile companies and plants are threatened by one thing that I feel can put an end to our entire industry. This threat is that we are not being given a fair opportunity to compete with foreign business on a level playing field.

Many of the well-intended laws, treaties and trade agreements enacted over the past years have made the competition between domestic and foreign textile business unfair in favor of the foreign producers. These treaties, laws and trade agreements have not really opened up the world to the American textile industry as was intended.

But instead, they have opened our borders for foreign manufacturers to flood our country with goods produced with near slave labor and in deplorable condition of workers.

These agreements have also created an incentive for American manufacturers to close the doors of domestic manufacturing operations and go south to Mexico and to the Caribbean to invest millions of dollars in foreign countries. And by doing this, they are putting thousands of hardworking Americans out of a job.

No matter what we do in the United States textile industry, whether we modernize even more or become even more technologically advanced or whatever, we will not be able to overcome the unfair advantage that our laws and rules have given foreign manufacturers and the products manufactured in foreign lands.

I do not remember who said it, but several years ago, I heard something that was supposedly said by a Senator. He said something to the effect that the textile industry was an antiquated and backward industry that should just be written off just like the steel industry was. I do not know who said that or even if a Senator really said it, but I do know that some of the things coming out of Washington make the hardworking people in the textile plants in North and South Carolina feel that everyone in Washington feels that way.

The company I have worked for during the last 8 years, Delta Woodside Industries, Inc., headquartered in Greenville, SC, just announced last month that they are splitting up our company into groups and selling them off. This is being done because, despite our efforts to modernize and become more competitive, the business is being taken by foreign manufacturers.

This is just one of many incidences that have come about within the last few weeks and months in our area. Burlington Industries just announced that they were closing down some nine plants in our area and other parts of North and South Carolina. One, a very large denim weaving plant in Mooresville, NC, was among the plants being shut down.

A few weeks later, Burlington then announced that they are opening a denim weaving operation in Mexico. I could cite you numerous other operations in North and South Carolina that have also been closed down due to the foreign business and many others that have been closed down and the manufacturing move to Mexico and/or the Caribbean area.

The current laws make it more enticing for companies like Burlington Industries, Parkdale Mills, Delta Woodside and others to build plants in Mexico and the Caribbean rather than spend money to keep our plants in the United States running and getting more productive.

It is obvious to us all, especially the ones of us that work hard every day to make ends meet, that something is not right. More appropriately said, something is just not fair. The people that we elect to represent us are giving away our industry and also giving away our livelihood.

I am young enough that if something were to happen to my job in the textile industry, I could probably go out and find a job and make a decent living. But to look around our plant that is typical of most textile plants and see people that would not be able to get another job if something were to happen to our plant makes me feel sick.

I have written all of my North Carolina Congressmen and Senators about my concern and have gotten some very nice replies from some of them. Many of them voice my same concerns over the loss of jobs in our industry, but none of them have offered a solution to our life-threatening situation. With the passing of the North American Free Trade Agreement, the textile industry has felt a terrible blow to our future existence.

And now, an extension of NAFTA in the form of H.R. 2644, the United States-Caribbean Trade Partnership Act, and also H.R. 1423, the African-American and Opportunity Act seems to be heading us to even more unfair competition and more of an unlevel playing field.

I do not know everything about these newer treaties, but I do know that NAFTA has hurt the ones of us that work in the textile plants of North Carolina. These other agreements appear to be similar kinds of trade agreements that I fear will doom our industry.

Again, I did not come here as an expert or asking for favors. All I want is for you to fully understand and recognize what the people working in the textile industry are facing. You need to feel the same sense of urgency that a textile worker feels when he or she is told the plant is going to be shut down because the yarn or cloth they make can be made cheaper in Mexico.

You know the feeling you get in your stomach when you start down the hill of a roller coaster? That is the same stomach-wrenching feeling that these workers feel. Think about the last time you felt that roller coaster sensation in your stomach, and you will know how thousands of hardworking American people have felt recently. That is the feeling they had when they went home and told their families that they no longer had a job because the company they had worked for for many years was moving their plant to Mexico or just closing down.

Think about that feeling today and tonight when you go home. Put yourself in the shoes of these people. We deserve better from our own country.

I want to again thank Senator Helms for this opportunity to bring my concerns before this committee. I also thank you for your time and attention.

The CHAIRMAN. Mr. Buchanan——

Mr. BUCHANAN. Thank you, Senator.

The CHAIRMAN [continuing]. I know you are interested in those comments.

Mr. BUCHANAN. Well, I think that they were eloquent, and they were moving. And they are reflective of, as of last year, something like 120,000 textile and apparel workers in the United States of America lost their jobs in a “Goldilocks” economy when the stock market was doing well.

And the manufacturing base and particularly textiles and apparel are being slaughtered by these trade agreements. And, quite frankly, it is primarily in the Carolinas and places like that. And we have an eloquent personal witness to relate exactly what is happening there. And I am honored to be here beside her.

The CHAIRMAN. It is an honor to have you, sir.

STATEMENT OF MR. PATRICK J. BUCHANAN, COLUMNIST, WASHINGTON, DC

Mr. BUCHANAN. Thank you, sir.

Senator, I would like to focus on the entire NAFTA agreement in the 5 years since we have had it, both the promise and performance and a number of aspects of that agreement. First and foremost, the United States was sold, I believe, a bill of goods when we were told we would become partners with one of the finer governments on earth.

As my former colleague and friend, Henry Kissinger, said about the Government of Carlos Salinas, "I know no government anywhere that is more competent." Within 18 months of that statement, President Salinas had fled just ahead of a posse. And his brother Raoul was discovered to have $300 million in various foreign and American banks. I think brother Raoul is right now in a penitentiary in Mexico, and I do not know where President Salinas is.

But I do know from our standpoint a far more grievous development was the movement by the Colombian cartel of its base of operations immediately before the passage of NAFTA to the border between Mexico and the United States, where they began buying up trucking and manufacturing plants in order to use them to transfer their shipments away from the Caribbean, which had become increasingly dangerous, across the southern border of the United States.

Post-NAFTA, Mexico has become the prime source of the drugs and narcotics that are killing and poisoning American children in the tens of thousands every single year. The Congress of the United States has itself been reluctant to certify the Government of Mexico as a reliable partner and ally in the war on drugs. And this was our partner in NAFTA.

Well, I do not know, have any first-hand knowledge, of any slur on the reputation of President Zedilla in any way or any scandal. There is no doubt that the American press corps with some justification uses the term "narco-democracy" to describe the Government south of the border. So as for NAFTA as an agent of governmental reform, I think it has left a little bit to be desired.

Let me talk now about the trade impact, Senator. We were promised that the United States surplus with Mexico, which we ran for three straight years and for years before NAFTA, that that would grow. But what happened is, every year subsequent to NAFTA, the U.S. trade surplus has disappeared. It vanished in the year of NAFTA, the first year of NAFTA.

And Mr. Fisher was very eloquent in describing the American exports that are going abroad to Mexico and Canada. And he did not get in in any depth to the imports, which is a little but like saying the Redskins scored three touchdowns on Sunday without mentioning that Dallas scored six. If you take a look at the total trade deficit since NAFTA with Mexico alone, it is $84 billion in goods and services total deficit. We ran a surplus not a single year.

Mexico now sells us 10 times as many automobiles as we sell Mexico. And it is a valid question as to where Mexico might have acquired an auto industry. General Motors now has 50 parts and assembly plants located just across the border in Mexico and not a single one in Texas along the border of Mexico.

Volkswagen, which used to have its plant up in western Pennsylvania in the Monn Valley, where my mother grew up—the Monn

Valley is a very depressed area. The Volkswagen plant up there has been shut down, and Volkswagen now produces something like 450,000 vehicles a year in Pueblo in Mexico.

Tijuana has become the TV-making capital of the world. Americans do not make many TV's anymore. I believe almost all of our television manufacturing plants have been bought up by others or moved out of the United States.

Now how many jobs have been lost as a consequence of NAFTA? I think the formal claims are 200,000 under the act by which some of the unemployed, where the people lose jobs, receive some benefit. But the informal estimates range from 300,000 to 600,000.

My understanding is 70 percent of the lost jobs are in manufacturing, which again last year lost about 350,000 jobs in a very, very good economy for the rest of us. Now manufacturing is the yellow brick road to the middle class for working Americans and those Americans who graduate from high school and men and women get married. It has always provided an easy road to the middle class, the working people in this country. Nineteen dollars an hour is still the manufacturing wage in America.

But we have lost in the last 40 or 50 years half of our manufacturing jobs in terms of the percentage of our population. It used to be 30 percent. It is now 15 percent. As I said, manufacturer workers get $19 an hour in the United States. The average is about $1.50 an hour in Mexico.

Now if you leave General Motors, you lose your job in General Motors, you are going to get a job, but you and your wife may be working at Wal-Mart. You know, during the campaign of 1996, Senator, when I was campaigning, a fellow told me, he said, "Pat, these fellows are right. There are lots of jobs out there. I know because I've got three of them." And a lot of that is happening out there in middle America.

Now let us talk about the exports to Mexico. My understanding is roughly about a fifth of our exports to Mexico are consumer goods for the Mexican people. But we are exporting heavily plants and factory equipment and parts for assembly in Mexico, which means we are exporting jobs to Mexico.

Senator, I will be candid. If we continue with these open border trade policies with nations who have hardworking people who will work for 10 percent of American wages, every large industrial and manufacturing plant in this country is ultimately at risk.

Now the argument has changed on NAFTA. It used to be that our surplus is going to grow. Then the argument became our deficit is temporary. And now the argument is that deficits do not matter. And that is latest argument we have heard.

Now let me talk a little bit about agriculture. It is true that agricultural exports to Mexico and Canada are up some 35 percent. But agricultural imports are up 57 percent. And the reason is simple: The devaluation of the currencies of both Canada and Mexico. The Canadian dollar, I believe, when we negotiated with Canada earlier than the original NAFTA with Mexico, I believe, was 84 cents to the dollar. It has been down to 64 cents.

The Mexican peso, as we know, collapsed at the end of 1994. And the effect of this is to create a fire sale, basically, of goods from the devalued currency into the United States, whose currency remains the same. And the effect is to put a virtual Smoot-Hawley tariff on American goods headed south.

Now a business I do know a little bit about is the Florida winter tomato market, because one of the fellows I went to high school with is or was one of the biggest producers in Florida. Now what happened is, when Mexico devalued by about 50 percent, that doubled the price of U.S. tomatoes in Mexico, but it cut immediately in half the price of Mexican tomatoes in the United States. It was instantaneous.

Now the President of the United States made a commitment during the NAFTA negotiations. If something happened because of price advantage or unfair price advantage, and certainly a 50-percent cut in the value of your currency in about a single month, is at least that. Here is President Clinton's statement. He said, "I am committed to take the necessary steps to ensure that the USTR, the trade rep, and the ITC take prompt and effective action to protect the U.S. vegetable industry from price-based import surges from Mexico."

Well, the protection did not come from that price-based import surge from Mexico. And 100 tomato farmers down in Florida lost their farms. Others are getting out of the business. And Paul Demare, a good friend of mine, someone you can spend a long time talking to on the telephone about how he is a patriotic American and what he thinks his Government did to him or failed to do in terms of keeping its promise.

But the key point here, in this winter tomato industry down in Florida, is that these Florida winter tomatoes are produced on farms that are subject to U.S. fertilizer and pesticide regulations, to workers protection acts, to the minimum wage, to Social Security, to health protection, to child labor and OSHA. That is American farms. And the Congress of the United States passed all of these laws, and Presidents have signed them.

Mexico tomato farmers do not meet any of those standards. Is that fair competition?

We were told that illegal immigration from Mexico would be reduced. But we faced some of the worst years in our history post-NAFTA. There are 5 million illegals now in the United States, and 400,000 come in every year, mostly from Mexico. They are an increasing share of the Federal and State prison population.

Senator, when a first world country throws open its borders to a large country like Mexico, whose wages are at Third World levels, two things will happen. The manufacturers will head south in search of the low and inexpensive labor, and the labor, which has a minimum wage 10 percent of ours, will head north to the American minimum wage and the benefits of the American welfare state, such as they are. And that is exactly what is happening. It is economics 101.

What good has it done for Mexico? Well, after the devaluation, real wages in Mexico post-NAFTA, real wages of Mexican working people are down 30 percent. And those Mexicans in extreme poverty have grown from one-third of the country to one-half.

Now here is an area that especially concerns me, Senator. And Henry Kissinger, again, my old colleague, when he supported NAFTA, he called it more important than a trade agreement. He said this is a step toward a new world order. And he is right. Any free trade zone you establish over a period of time will call into existence a government to control it.

In 1787, when Hamilton and Washington and Madison put together their plot and went to Philadelphia to put together an American free trade zone and take down all the tariffs between New York and New Jersey and the battle between Virginia and Maryland over who owns the Potomac, they created a free trade zone inside the United States. All tariffs among the States were removed and outlawed.

And that free trade zone called into being a stronger and stronger national government, which South Carolina found in 1832 and again in 1861 was now a dominant Federal Government. They were no longer free and independent States that could walk away.

In Europe 50 years ago, the European coal and steel community between France and Germany became the European Economic Community, the common market, and the European Community and the European Union. And now it is Euro Land. And now we have a socialist super state sitting on top of the nations of Europe, which are gradually surrendering control of their currency, their fiscal policy, their immigration policy, their tax policy, and ultimately control of the Nation itself.

I believe, Senator, truly that a global economy where all barriers to trade and all quotas and tariffs are removed, a global economy will eventually call into existence a global government. And we already see the embryonic institutions in the World Trade Organization, the IMF, the World Bank, the U.N. And any global government, I believe, is a betrayal of our heritage and our revolution.

And what should be done? I think the Congress and the President should work together to give the President, with congressional approval, the capacity to impose immediate tariffs when a country attempts to get a trade advantage on us by devaluing its currency.

Second, I believe we ought to have an equalization tax on all imports, especially imports from unfair traders like China, that is equal to the cost of the taxes and regulations imposed on goods made in the USA.

Finally, Senator, let me quote an old Republican named Theodore Roosevelt. We call him the good Roosevelt in the household I grew up in.

He said, "I believe in such measure of protection as will equalize the cost of production here and abroad; that is, will equalize the cost of labor here and abroad. I believe in such supervisions of the working of the law as to make it certain that protection is given to the man we are most anxious to protect, the laboring man," and I would add the laboring woman. That is real Republican philosophy.

Senator, thank you very much for the opportunity to speak to you.

The CHAIRMAN. Thank you, Mr. Buchanan. You are eloquent as always.

Now we have a bit of a problem. We have four rollcall votes in the Senate beginning at 4 o'clock back to back. That means for an hour and a half, maybe an hour and 45 minutes, we will not do very much here. Let me suggest this, that instead of doing the questions orally, that we submit them in writing. And would you respond to them in writing? And our staff will work with you in doing that as well. And in that way, we can hear the fourth and final witness for much of the time.

Thank you again to both of you for coming. And again, Mrs. Dabbs, I am proud of you. God bless you.

Mrs. DABBS. Thank you very much.

The CHAIRMAN. Now we will hear from Mr. McMillion. Doctor, you may begin. We are delighted to hear from you. And your full statement will be printed in the record as it is read.

STATEMENT OF DR. CHARLES W. MCMILLION, MBG INFORMATION SERVICES, WASHINGTON, DC

Mr. MCMILLION. Thank you, Mr. Chairman. I am happy to be here this afternoon to help you begin to set the record straight on the global economic policies and the market forces that now undermine United States and world security and prosperity. I am sorry our Ambassador left. It is good to be in a hearing with a fellow "latch key" Texan, although I have to say I am a little surprised to be accused of being a gifted rhetorician. But it is very nice to be here today, and I appreciate the testimony of those who preceded me.

You know, the cynicism of the American people and others is maybe nowhere more justified than with a steady diet of broken promises and the misleading spin that they are fed every day concerning international economic matters. And I think we have heard some of that this afternoon.

NAFTA has served as a hopelessly flawed model for a very particular type of ideological and special interest experiment in economic globalization. Even the shortsighted benefits of NAFTA for the trans-national financial and business community have been the result of the $41 billion taxpayer bailout for speculators and investors in Mexico that was arranged in 1995 at the end of NAFTA's first year by the U.S. Treasury and the IMF.

Even before Mexico's debt crisis spread to Asia in the summer of 1997, the International Labor Organization was already pointing out the worst global unemployment crisis since the 1930's. And this human crisis, of course, has worsened very considerably over the past 2 years, despite perhaps $200 billion in additional bailouts and the United States operating as the customer of last resort for much of the world's production.

I would welcome the opportunity to discuss with our Ambassador and anyone the so-called "Goldilocks" U.S. economy, which has enjoyed the strongest bull stock market in our history, along with the lowest unemployment and inflation rates in a generation. It has also given us the first negative personal savings rates since 1933 and the highest household debt levels on record.

But perhaps most importantly, and I have a chart [1] here that maybe someone can put up, or I will just point to, is that the United States plunged from the world's leading banker during the post-World War II period to by far the world's biggest debtor with

[1] The charts referred to throughout Mr. McMillion's oral presentation can be found in his prepared statement which begins on page 36.

a net foreign debt—we were biggest world banker just a decade or so ago—with a foreign debt that now is approaching $2 trillion.

But virtually the only consideration ever heard of today's special interest globalization starts with an out-moded assumption that it provides net overall benefits. That is the starting point for legitimate conversation about today's trade and globalization policies. This is pervasive, and not just where it belongs—it really belongs in trans-national corporate public relations.

That is what they are supposed to do—but also in major media reporting and congressional and administrative hearings and in trans-national funded think tanks and universities.

It is filled with evocative pictures of lights being turned on in Prague, Concorde jets and beautiful women, as well as references, of course, to creative destruction and the fact that you have to break eggs to make omelets. The financially correct position is to religiously ignore or distort all of the facts and blindly champion more expansion of special interest globalization. Again, we heard quite a bit of that this afternoon.

I would like to now briefly outline the major U.S. economic effects of the NAFTA with Mexico and its utter failure in both its broad macro and its more specific industry intentions.

Of course, it is also regularly reported, and Mr. Buchanan mentioned this earlier, by law enforcement bodies throughout the United States that the trade in illegal drugs has been greatly aided by NAFTA and that its value runs in the scores of billions of dollars.

Mr. Chairman, I hope you are aware that a recent GAO report suggests that $6 billion per year is spent by those directly tied to the narcotics trade just to buy political influence in Mexico, $6 billion a year. However, of course, this is outside the scope of my analysis here, but clearly very important to trade and clearly very important to our relationship with Mexico.

The North American Free Trade Agreement, just so we are clear at the start, went into effect on January 1, 1994. NAFTA was the first ever experiment in rapid and sweeping deregulation of policies affecting investment and trade between a very low wage developing country and highly industrial countries in the United States and Canada.

The agreement between Mexico, with its population then of 94 million people, the United States with our population then of 260 million and Canada of 229 million, was precedent setting in very important ways.

Recent special interest assessments of NAFTA that were referred to by our Ambassador earlier this afternoon, these so-called assessments of NAFTA's effect used exclusively quite inappropriate assumptions and grossly distort the scope and the nature of that agreement to the almost insignificant tariff reductions of a few percent over 15 years.

As the Ambassador said, from 1993 to 1999, Mexico's average applied tariffs reduced the price of U.S. exports to Mexico by 8 percent, from 10 to 2, actually 10 to 2½, by 8 percent. This was more than offset in just the first 11 months of NAFTA in 1994 as the official crawling peg used in Mexico raised U.S. export prices by 12 percent in 1994 before the 50-percent devaluation of the peso in

December 1994. Yet NAFTA's key provision was to radically shift the regulatory climate for investment and trade in Mexico, as noted by Gary Hufbauer and Jeffrey Schott, NAFTA's most celebrated economists among NAFTA advisors, who have now become experts on China, I see.

In their book in 1993, they say that "NAFTA contains precedent-setting rights and obligations regarding services and investment. The investment obligation of the NAFTA and related dispute settlement provisions accord national treatment to NAFTA investors, remove most performance requirements on investment in the region, and open up new investment opportunities in key Mexican sectors. The investment provisions provide a useful model for future GATT trade accords."

It is only by ignoring this key provision, this key, really the essence of NAFTA, that our Ambassador can say, as he says in his testimony, that economic analysis shows no sound rationale to support the argument that U.S. trade deficits are a function of NAFTA. So long as you only look at tariff reductions, that is true.

The key thing, and I have another chart on hot money into Mexico.

These major new obligations and public parties conferred precedent-setting rights and guarantees for private speculators and investors that led to a remarkable reversal of Mexico's decades of capital flight. Suddenly $60 billion—this is Mexico, not the United States.

Suddenly $60 billion in global hot money catapulted into Mexico as NAFTA took shape, turning it briefly into the fast buck capital of the world, with speculative returns routinely in the range of 60 and 120 percent per year. I can understand why our Ambassador, who, in his former life, was a global manager, thought this was a very good deal.

The celebration of NAFTA's investor focus was not limited to the financial services and multi-national business community, but was very widely shared by economic analysts and pundits on the eve of NAFTA's ratification by a reluctant Congress.

Hufbauer and Schott noted enthusiastically that "the prospect of NAFTA implementation has already generated strong expectational effects with capital inflows to Mexico estimated at about $18 billion in 1992" before NAFTA. David Broder, many of our top pundits in the major media, chimed in with hosannas, with celebration, of this investor focus.

Now this promise of massive net private financial inflows to Mexico was and is the essential engine driving the NAFTA agreement and its consequences. It is simply not possible to assess NAFTA's effect, nor to make sense of pre-NAFTA forecasts separate from these precedent-setting investment provisions and massive new financial inflows. Remember that Mexico has an economy 1/28th the size of ours. So multiply $60 billion times 28, and you will see the equivalent in the United States.

Any nation, of course, Senator, as you know so well, any nation with a net capital inflow must run an offsetting trade current account deficit. That is, national accounting requires that a surplus in capital accounts be offset by a similar deficit in the current accounts.

This was the starting point for economists modeling the anticipated consequences of NAFTA on Mexico and on the United States. For example, Hufbauer and Schott assumed that financial flows would leave Mexico with a global current account deficit of $10 billion to $15 billion in 1990 and $13 billion to $19 billion annual deficit from the year 2000 until 2010.

They then assumed that this global current account deficit for Mexico would automatically result in a U.S. merchandise surplus with Mexico of $7 billion to $10 billion—could you put that one up, please—through the nineties, and $9 billion to $12 billion throughout the first decade of the 21st century.

Now these false assumptions are quite important, because Hufbauer and Schott's confident forecast of 15 years, 15 years, of substantial, unbroken U.S. trade surpluses with Mexico were widely used to ridicule—and I am not talking about merely criticize, Senator, as you know—were widely used to ridicule those who questioned the wisdom of the agreement.

President Clinton repeatedly cited this study to insist that NAFTA would create a net gain of 200,000 jobs by 1995. But unlike some politicians and some professional advocates and some trusting reporters, Hufbauer and Schott were quite clear in how they came to forecast job growth from NAFTA. And they said, "Our job projections reflect a judgment that, with NAFTA, U.S. exports to Mexico will continue to outstrip Mexican exports to the United States, leading to a U.S. trade surplus with Mexico of about $7 billion to $9 billion annually by 1995."

And as you can see, Senator—I hope you can see that with the angle—we have had a rather different outcome. We are running short of time, and so let me rush forward.

One of the other key assumptions of those who supported NAFTA was that NAFTA would provide the United States with a key benefit in trade with Mexico over Europe and Asia and that the United States would have not only a surplus, but the U.S. surplus would be at the expense of other countries in the world.

As we can see, it is really only the United States, the green line there—the other deficit country is Canada with a small deficit—the United States' deficit has soared. And we have gone from a substantial trade surplus in the 5 years before NAFTA to $65 billion in deficits for the first 5 years of NAFTA. That is a $16 billion a year change from where it was to where it is in manufacturing.

We also have a deficit in services. We also have, of course, a huge deficit in a thing called unilateral transfers. I might point out, though, that there is this outlier when you look down at who wins and who loses. The bottom line is the country current account deficit clearly loses with an $82 billion current account deficit over 5 years, $82 billion over 5 years. And it is even worse, and I will get to that.

But there was one winner. And the winner is investment income. Those who were managing global portfolios and speculating and investing in Mexico have done quite well. Repatriated profits on investments in Mexico have never been stronger. They have leaped since the NAFTA agreement. The change there is $2.2 billion per year.

Clearly, the major claims of NAFTA promoters in the United States, that it would assure not only U.S. trade surpluses with Mexico but provide disproportionate trade advantages for the United States over the rest of the world, have not only failed but have failed spectacularly. There is just no question. And I do wish that our Ambassador were here.

There are several things in the few minutes that I have left that I would like to move to quickly, because it is true that the composition of trade is really what is key. The fact that we have a trade deficit is extraordinarily important, but the composition of our trade is quite important.

Just because, Senator, there may be some in the committee who are not aware, but when we talk about the American economy, this is not a black box. It is, by definition, comprised of four components. There are inventories that kind of move back and forth, but four components.

We have personal consumption, private investment, trade and government spending. As you can see, trade has been a deficit and a very large deficit, detracting from our economy for quite some time, an extraordinarily heavy drag on our economy during the 5 years of NAFTA, which is one of the reasons that this 8-year recovery has been one of the weakest of any post-World War II recoveries, even those recoveries that did not last 8 years, even after they went through a recession, after 8 years we were ahead of where we are today.

But the composition of trade is very important. And I know that we want to talk some about textiles as well. But I was particularly surprised that our Ambassador pretends to tell this committee that all States have benefited from the expansion of trade with NAFTA. Please look at his testimony. He did not give you trade figures. He gave you export figures. Senator, Chairman, trade is exports and imports.

A full disclosure of trade would provide both the exports and the imports and would divide out our $16 billion, $17 billion, $18 billion a year deficit with Mexico throughout the States. What he has done is very much like a bankrupt company showing its auditors, or potential investors, only its receipts without disclosing its expenses. This is extremely misleading and very unfortunate.

Let me just close then—I wish we had so much more time. I hope that you will find the time to read my testimony—to go through the composition of U.S. trade with Mexico.

Let me say first that economists, many economists, using what I call a buggy whip approach to economics, really have not changed to understand that trade is now dominated by multi-national companies moving—and multi-national companies do any number of terrific things. But in analyzing trade, we need to understand that trade is not driven by traditional 18th century competitive advantage.

As Mr. Buchanan mentioned, the United States has an enormous trade deficit with Mexico in autos. I wish that you could see the chart, although it is in my testimony. Mexico now exports more cars just to the United States than the United States exports to the world, including Mexico.

Mexico is a much larger world exporter of cars than the United States. This entirely since NAFTA. Because until economists come to grip with, and until policymakers, Mr. Chairman, come to grip with the fact that Mexico exports more cars than we do, they simply are not talking about trade and 21st century economics. They are talking about 19th century trade and very, very special interests.

And it is not just cars. If you look throughout the composition of U.S. trade, it is precisely the opposite of what we always used to teach students, certainly what we learned and what we used to teach students, and what we believe, and what is still the case in much of Latin America and much of the rest of the developing—some of the rest of the developing world. It is changing quickly.

But in Mexico now, the United States loss—the United States pays more than it buys for autos, electronics, machinery, including computers—we pay more for computers from Mexico than we earn from selling computers to Mexico—mineral fuels, of course, and precision instruments, and of course textiles and apparel.

Now, where have we been able to take advantage of our comparative advantage, this wonderfully technologically, sophisticated, fantastic country of ours? Where has our comparative advantage come into play with Mexico?

Our principal export, net export, gain to Mexico is in plastic and articles. Now that could be high valued-added stuff. It is not. It is packing material. It is propylene. It is low-grade, crude material, packaging material principally, fasteners, buttons and zippers and things for clothes. That is what we are exporting to Mexico, a principal net gain.

Cereals, we have done very well in cereals. Paper and paperboard, again boxes and packing material for them to ship cars and electronics and computers back to us. We send them the boxes and the packing material; they send us the computers and the cars.

Organic chemicals, grains, seed and fruit. I could go on.

One other thing of many that I would like to point out in the very brief time I have—and I apologize for going over—is that, again, our Ambassador indicates in his testimony that the trade with Mexico is good because industries associated with exports pay 15 percent more than the average wage.

Well, that is true. But again, he is only telling you about 40 percent of the story. That is, not even half of the story.

Industries associated with trade—that is, minerals and mining, agriculture, and manufacturing—pays about 16 percent or more of the average wage. Even—and I brought a copy of this, because I do not have it in my testimony, but even before NAFTA went into effect, the leading NAFTA proponents acknowledged that jobs displaced by imports from Mexico, even then, before the explosion in the auto industry and the electronics, before NAFTA went into place, our imports from Mexico displaced jobs paying higher wages than were supported by our exports to Mexico.

In other words, exports pay a higher wage, but imports that are displaced pay an even higher wage. So you get kind of a double whammy. Not only do we have this trade deficit, not only is our trade deficit exactly the reverse of what you would expect for a developed, sophisticated country trading with a very under-developed country, but our imports are displacing very high-paying jobs.

Maybe I should just stop there. There is so much more, but I hope that we have time for a question or two.

The CHAIRMAN. Well, we will not have time for questions. But written questions will be filed with each of you.

I am going to ask unanimous consent, and I think I will get it, that the record be kept open for Senators who were unable to be here. And that they, any Senator, can file written questions with any of the witnesses.

Now further, I am going to ask unanimous consent, with some confidence that I will have it approved, or not objected to, that this hearing be printed. Now all hearings are not printed in the Senate, as you well know. But I want this to be done up so it can be easily understood. And I want to use your charts. And you are going to have to work with staff to supervise how these are presented in context with your remarks.

Mr. MCMILLION. Thank you.

[The prepared statement of Dr. McMillion follows.]

PREPARED STATEMENT OF DR. CHARLES W. MCMILLION

ECONOMIC GLOBALIZATION: THE ABJECT FAILURE OF THE NAFTA MODEL

Thank you Mr. Chairman. I am happy to be here this afternoon to help you begin to set the record straight on the global economic policies and market forces that now undermine U.S. and world security and prosperity. The cynicism of the American people—and others—is nowhere more justified than with the steady diet of broken promises and misleading spin that they are fed every day concerning international economic matters.

Nafta has served as a hopelessly flawed model for a very particular type of ideological and special interest experiment in economic globalization. Even the short-term benefits of Nafta for the trans-national financial and business community have been the result of the $42 billion taxpayer bailout of speculators and investors in Mexico arranged in 1995, at the end of Nafta's first year, by the U.S. Treasury and the International Monetary Fund.

Before Mexico's debt crisis spread to Asia in the summer of 1997, the International Labor Organization was already pointing out the worst global unemployment crisis since the 1930s. This human crisis has worsened badly over the past two years despite another $200 billion in bailouts and the U.S. operating as customer of last resort for much of the world's production.

I would welcome the opportunity to discuss the so-called "Goldilocks" U.S. economy which has enjoyed the strongest bull stock market in history along with the lowest unemployment and inflation rates in a generation. We have also seen the first negative personal savings rates since 1933 and the highest household debt levels on record. Most importantly for the future, to pay for trade losses, the U.S. has plunged from the world's leading banker in the post World War II period to, by far, the world's biggest debtor with a net foreign debt now approaching $2 trillion.

Virtually the only consideration ever heard of today's special interest globalization starts with outmoded assumptions that it provides net overall benefits. This is pervasive, and not just where it belongs in trans-national corporate public relations, but also in major media reporting, Congressional and Administrative Hearings, and in trans-national-funded "think tanks" and universities. If is filled with evocative pictures of lights being turned on in Prague, Concorde jets and beautiful women, as well as references to "creative destruction" and breaking eggs to make omelets. The financially correct position is to religiously ignore or distort all the facts and blindly champion more expansion of special interest globalization.

Additionally, a cottage industry has developed emphasizing individual winners and losers in globalization. Aimed at spending part of the assumed surplus created through globalization, this involves an emphasis on the "best practices" of winners and/or providing job training, social services and community development for the losers. This important, age-old political and institutional struggle is sometimes mistaken for criticism of free trade or globalization by its participants and others.

This afternoon, I will briefly outline the major U.S. economic effects of the Nafta with Mexico and its utter failure in both its broad macro and more specific industry intentions. Of course it is also regularly reported by law enforcement bodies that the trade in illegal drugs has been greatly aided by Nafta and that its value runs in the scores of billions of dollars. A recent [1] GAO report suggests that $6 billion per year may be spent by those directly tied to the narcotics trade just to buy political influence in Mexico. However this is outside the scope of my analysis.

Nafta's Failed Macro Assumptions

The North American Free Trade Agreement went into effect on January 1, 1994. Nafta was the first-ever experiment in rapid and sweeping deregulation of policies affecting investment and trade between a low wage developing country and highly industrial countries. The agreement between Mexico, with its population of 94 million, the United States (population 260 million) and Canada (population 29 million) was precedent setting in other important ways as well.

Recent special interest "assessments" of Nafta's effects often use similar, quite inappropriate assumptions and grossly distort the scope and nature of the agreement to the almost insignificant tariff reductions of a few percentage points over 15 years. From 1993 to 1999 Mexico's average applied tariffs reduced the price of U.S. exports by about 9% (from 10% to 1%). This was more than offset in just the first 11 months of Nafta as the official "crawling peg" raised U.S. export prices by 12% before the peso was forced to seek market rates in December, 1994.[2]

Yet Nafta's key purpose was to radically shift the regulatory climate for investment and trade in Mexico. As noted by Gary Hufbauer and Jeffrey Schott, Nafta's most celebrated economists among Nafta advocates: [3]

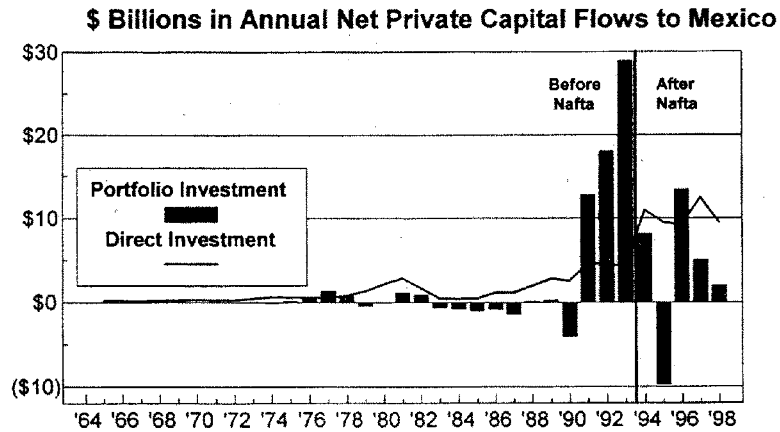
> In large part, the agreement involves commitments by Mexico to implement the degree of trade and investment liberalization promised between its northern neighbors in 1988. However, the Nafta goes further . . . including protection of intellectual property rights, rules against distortions to investment (local-content and export performance requirements), and coverage of transportation services . . . (Nafta) contains precedent-setting rights and obligations regarding services and investment . . . the investment obligations of the Nafta (and related dispute settlement provisions) accord national treatment to Nafta investors, remove most performance requirements on investment in the region, and open up new investment opportunities in key Mexican sectors . . . The investment provisions provide a useful model for future GATT trade accords . . .

[1] Benjamin F. Nelson, "Update on U.S.-Mexican Counternarcotics Efforts," Testimony before the U.S. Senate Caucus on International Narcotics Control, February 24, 1999. (Washington, DC: GAO, March, 1999) p. 2.

[2] Tariff levels are discussed in "Study on the Operations and Effect of the North American Free Trade Agreement," issued by the Office of the U.S. Trade Representative and related entities, (Washington, DC: USTR; July, 1997). p ii. On August 1, 1998, the Governments of the U.S., Canada and Mexico eliminated tariffs on about 600 more 8-digit tariff lines including certain textiles, chemicals, pharmaceuticals, antibiotics, steel and wire products, watches, toys, and other goods worth approximately $1 billion of trade annually. The New Peso was officially pegged at 3.1 = $1 when Nafta went into effect and regularly reduced in value to 3.6 = $1 by the end of November, 1994 and roughly 10 = $1 in early 1999.

[3] Gary Clyde Hufbauer and Jeffrey J. Schott, *NAFTA: An Assessment* (Washington, DC: Institute for International Economics, October, 1993) page 2.

$60 Billion of Hot Global Money
Poured into Mexico During Nafta Negotiations



IMF International Financial Statistics and Bank of Mexico

Indeed, these major new obligations on public authorities conferred precedent-setting rights and guarantees for private investors and speculators and led to a remarkable reversal of Mexico's decades of capital flight. Suddenly, $60 billion in global hot money catapulted into Mexico as Nafta took shape turning it, briefly, into the fast buck capital of the world with speculative returns routinely in the range of 60%-to-120% per year.[4]

The celebration of Nafta's investor focus was not limited to the financial services and multinational business community but widely shared by prominent economists and pundits. On the eve of Nafta's ratification by a reluctant Congress,[5] Hufbauer and Schott noted enthusiastically that, "The prospect of NAFTA implementation has already generated strong expectational effects, with capital inflows to Mexico estimated at about $18 billion in 1992." [6]

Issuing "A Last Minute Pitch for Nafta," respected, political columnist David Broder declared that "Nafta's approval would ensure Mexico the flow of investment capital to sustain a growth of 6 percent to 7 percent a year . . ." for the next 15 years.[7]

This promise of massive net private financial inflows to Mexico was, and is, the essential engine driving the Nafta agreement and its consequences. It is simply not possible to assess Nafta's effects nor to make sense of pre-Nafta forecasts separate from these precedent-setting investment provisions and massive new financial flows.

Any nation with a net capital inflow must run an offsetting trade deficit. That is, national accounting requires that a surplus in capital accounts be offset by a

[4] Portfolio, direct investment and exchange rate data are available in *International Financial Statistics Yearbook: 1998* (Washington, DC: IMF, 1998) pp. 626–627, and previous years.

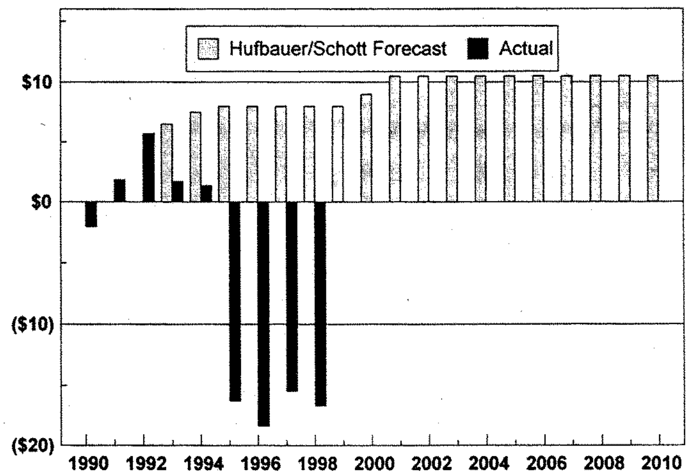
[5] One of the best accounts of the Congressional pork bazaar before the vote passing the Nafta agreement (234 "For" vs. 200 "Against") is by Charles Lewis, founder and executive director of the Center for Public Integrity. Describing "The orgy of deal-making that preceded" the vote on Nafta, Lewis calculates "the quantifiable cost to the taxpayer of the Nafta deals will be at least $300 million" from government spending programs created in exchange for votes for Nafta. His figures do not include massive, private advertising and campaign contributions by Nafta supporters. See Charles Lewis, "Nafta-Math; Clinton Got His Trade Deal, but How Many Millions Did It Cost the Nation?" *The Washington Post,* Dec. 26, 1993.

[6] Hufbauer and Schott (1993) p. 4. The authors refer to South Korea's post-war/Cold War experience between 1959 and 1981 to suggest that the current account imbalance required by such massive financial flows would be sustainable for Mexico through the year 2010. (p. 15).

[7] David Broder, "A Last Minute Pitch for Nafta," in *The Washington Post,* Nov. 3, 1993.

similar deficit in the current accounts.[8] This was the starting point for economists modeling the anticipated consequences of Nafta on Mexico and the U.S. For example, Hufbauer and Schott assumed that financial flows would leave Mexico with global current account deficits of $10–$15 billion in the 1990s and $13–$19 billion from 2000 to 2010.[9] They then assumed that this global current account deficit for Mexico would automatically result in a U.S. merchandise trade surplus with Mexico of $7–$9 billion throughout the 1990s and $9–$12 billion throughout the first decade of the 21st century.

Billions of Dollars: U.S. Annual Merchandise Trade Balance With Mexico



U.S. Department of Commerce and MBG Information Services

These erroneous assumptions are quite important because Hufbauer and Schott's confident forecast of 15 years of substantial and unbroken U.S. trade surpluses with Mexico were widely used to ridicule those who questioned the wisdom of the agreement. President Clinton repeatedly cited the study to insist that Nafta would create a net gain of "200,000 jobs by 1995."[10]

Unlike politicians, professional advocates and naive reporters, Hufbauer and Schott were quite clear in how they came to forecast net U.S. job gain from Nafta:[11]

> Our job projections reflect a judgment that, with NAFTA, U.S. exports to Mexico will continue to outstrip Mexican exports to the United States, leading to a U.S. trade surplus with Mexico of about $7 billion to $9 billion annually by 1995.

Similar happy forecasts, predictions of doom if Nafta was not passed, along with frequent name-calling were widely promoted in the weeks leading up to the November, 1993 Congressional vote on Nafta.[12] It should be noted that the U.S. trade surplus with Mexico, which spiked up in 1992, was already widely known through reg-

[8] In practice, countries occasionally stray from this accounting balance either by building up foreign currency reserve, as both Mexico and China are doing currently, or by spending down its reserve, as Mexico did through much of 1994.

[9] Hufbauer and Schott, p. 16.

[10] See, for example, President W.J. Clinton, Saturday Radio Address, Sept. 18, 1993. p. 1 (actually, Hufbauer and Schott forecast 170,000 jobs; the President and others rounded up.)

[11] Hufbauer and Schott, p. 14.

[12] Robert Pritzker, Chairman-elect of the National Association of Manufacturers claimed in his speech at the National Press Club on October 26, 1993: . . . *Since Mexico began to lower trade barriers in 1987, the U.S. trade balance with Mexico has moved from a $5 billion deficit to a $5 billion surplus . . . Nafta would continue and even improve the positive trend.* This and other excerpts from his speech, "For the Record," *The Washington Post,* Oct. 27, 1993. Rightwing pundit Charles Krauthammer ridicules Congressman Bonior and others in "The Liberal Betrayal," *The Washington Post,* Nov. 12, 1993 and reporter Brett D. Fromson catalogs Wall Street warnings of doom that might follow in "If Nafta Fails, Will Markets Follow?" *The Washington Post,* November 9, 1993.

ular monthly Census trade reports to be falling sharply by the time these forecasts were made. Indeed, the U.S. surplus in traded goods with Mexico fell back to only $1 billion in 1993.

However, the fundamental error made by Hufbauer/Schott and others that anticipated U.S. trade surpluses after Nafta, was their assumption that if Mexico has a current account deficit, the U.S. must enjoy a surplus of almost equal size. This crude, two dimensional view might seem an odd assumption in a world of 200 countries each competing for markets. But it has remained a common, enormously distorting practice among many slow-to-adapt-to-change U.S. economists including the U.S. International Trade Commission.[13]

Certainly there was no pre-Nafta empirical basis to assume that a Mexican deficit would automatically or primarily create a U.S. trade or current account surplus. For example, while Mexico had a −$7.5 billion current account deficit in 1990, the U.S. suffered deficits with Mexico of −$3.6 billion in its current accounts and −$2.4 billion in merchandise trade. As Hufbauer and Schott made their forecasts in late 1993 before Nafta took effect, Mexico's current account deficit reached −$23.4 billion—but Mexico enjoyed a small current account *surplus* with the U.S.

MEXICO'S CURRENT ACCOUNTS

[In millions of dollars]

			Nafta					
	1992	1993	1994	1995	1996	1997	[1]1998	Totals
Balance on merchandise trade	−$15.9	−$13.5	−$18.5	−$7.1	−$6.5	−$0.6	−$7.7	−$12.0
Balance on services	−2.7	−2.5	−2.6	1.2	0.5	−0.5	−0.8	−2.2
Balance on goods and services	−18.6	−16.0	−21.1	8.3	7.1	0.1	−8.5	−14.1
Balance on investment income	−9.2	−11.0	−11.7	−12.9	−13.0	−12.8	−13.8	−64.2
Unilateral transfers, net	3.4	3.6	4.0	4.0	4.5	5.2	5.8	23.5
Balance on current accounts	−24.4	−23.4	−28.8	−0.7	−2.3	−7.4	−16.5	−55.7

[1]1998 estimated from QI–QIII.
Source: International Monetary Fund and Banco de Mexico.

In 1990, Mexico had a global merchandise trade deficit of −$881 million consisting of a $2.4 billion *surplus* with the U.S. and a *deficit* of −$3.3 billion with the rest of the world. Even in 1993 when Mexico had a merchandise trade deficit of −$13.5 billion, the U.S. enjoyed a surplus of only $1 billion while the rest of the world enjoyed a surplus of $12.5 billion with Mexico.

Nafta's promoters wrongly assumed that the agreement would shift Mexico's trade so as to primarily assure a U.S. trade surplus. However, in the event, the disproportionate and adverse effect on the U.S. from Mexico's trade has been worsened sharply since Nafta. In 1994, Mexico's −$28.8 billion current account deficit consisted of a deficit with the U.S. of only −$0.5 billion and a deficit with the rest of the world of −$28.2 billion.[14] The U.S. surplus in merchandise trade with Mexico slipped to only $0.7 billion in 1994 (from $1 billion in 1993) while the rest of the world's surplus with Mexico rose to $17.8 billion (from $12.4 billion).

[13] This distorting and parochial practice is so well established it is rarely noted explicitly in the text of economists' reports. A rare exception is *International Trade Commission. Potential Impact of the U.S. Economy and Industries of the GATT Uruguay Round Agreements: Vol I,* (Washington, DC; USITC Publication 2790, June 1994) footnote 13, page 1–6.

[14] U.S. Senator Byron Dorgan and others vainly attempted to raise with U.S. Treasury officials the issue of the source of Mexico's current account imbalances during the heated Congressional debate over a $50 billion U.S. taxpayer guaranteed stabilization loan in early 1995.

U.S. CURRENT ACCOUNTS WITH MEXICO

[In billions of dollars]

			Nafta					
	1992	1993	1994	1995	1996	1997	[1]1998	Totals
Balance on merchandise trade	$4.9	$1.0	$0.7	−$16.6	−$18.4	−$15.5	−$16.8	−$66.6
Balance on services	0.5	0.1	−0.7	−3.6	−3.8	−4.0	−4.5	−16.6
Balance on goods and services	5.4	1.1	0.0	−20.2	−22.2	−19.5	−21.3	−83.2
Balance on investment income	2.3	2.2	4.2	3.3	4.9	4.7	5.0	22.1
Unilateral transfers, net	−3.2	−3.4	−3.6	−3.8	−4.2	−4.5	−5.0	−21.1
Balance on current accounts	4.6	−0.1	0.5	−20.7	−21.5	−19.3	−21.3	−82.3

[1]1998 estimated from QI–QIII.
Source: U.S. Dept. of Commerce.

These disproportionately adverse effects on the U.S. were intensified to an extraordinary degree since the second year of Nafta. Since 1995, Mexico's current accounts have again steadily worsened to near −$17 billion in 1998 and total perhaps −$56 billion over Nafta's first five years. Even this result for Mexico was achieved only because of an unprecedented surplus of more than $20 billion per year with the U.S. since 1995. That is, in 1998 Mexico suffered a near −$40 billion current account deficit with most of the world offset by a $21 billion surplus with the U.S. The only clear U.S. winner under Nafta is investment income which has soared to new record highs.

Indeed, during the first five years of Nafta, the U.S. suffered total current account losses to Mexico of −$82 billion while the rest of the world enjoyed a surplus from Mexico of $138 billion. Mexico's current account losses in five years of Nafta totaled −$56 billion.

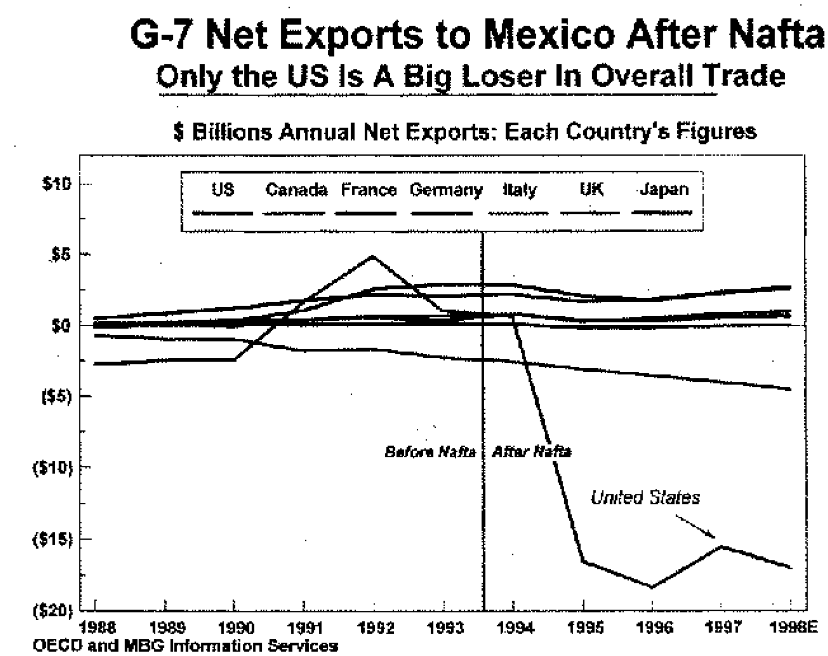
While investment income has continued to enjoy record gains, there is every reason to expect that the U.S. current account and trade flows of both goods and services will continue to be disproportionally and adversely affected by Nafta-based trade with Mexico.

U.S. CURRENT ACCOUNTS WITH MEXICO

[In millions of dollars]

	Before 1991–93	After 1994–98	Annual Changes
Balance on merchandise trade	$7.6	−$66.6	−$15.9
Balance on services	1.0	−16.6	−3.7
Balance on goods and services	8.6	−83.2	−19.5
Balance on investment income	6.7	22.1	2.2
Unilateral transfers, net	−9.7	−21.1	−1.0
Balance on current accounts	5.6	−82.3	−18.3

Source: U.S. Dept. of Commerce.



Mexico's current account deficit is again deepening in 1999 as oil price declines undermine the value of exports despite the highest non-oil trade surplus ever with the U.S. (Appendix) However, rather than to allow the peso to weaken normally beyond the current 10 pesos/$1 US dollar rate to moderate its current account deficit, Mexico must now give considerable priority to its foreign debt obligations and current, desperate re-financing needs. For this reason, and to attack inflation which is near a 20% annual rate, financial authorities have set weekly "Cetes" government borrowing rates at 26.8% in early March with commercial paper rates are 28.6%. Whether through further peso devaluation or high interest rate consumer austerity, U.S. trade losses with Mexico seem quite unlikely to improve and likely to worsen in the year ahead.

Clearly, the major claims of Nafta promoters in the U.S.—that it would assure not only U.S. trade surpluses with Mexico but provide disproportionate trade advantages for the U.S. over the rest of the world—have not only failed but have failed spectacularly.

Notwithstanding this clear and overwhelming data, much confusion has been created by a powerful effort to ignore U.S. trade (revenues from exports less payments for imports) and to discuss only the 40-to-45% of U.S. trade represented by exports. Representative of this ongoing and constant effort to mislead, President Clinton's letter transmitting his Administration's legislatively-required assessment of Nafta's effects boasts only: [15]

> Export growth has been central to America's economic expansion. Nafta, together with the Uruguay Round Agreement, the Information Technology Agreement, the WTO Telecommunications Agreement, 22 sectoral trade agreements with Japan, and over 170 other trade agreements, has contributed to overall U.S. real export growth of 37 percent since 1993. Exports have contributed nearly one-third of our economic growth—and have grown three times faster than overall income.

This partial and misleading emphasis on exports often blends into even more explicitly false statements as in President Clinton's recent radio address to the nation

[15] Office of the U.S. Trade Representative and others, "Letter from President William J. Clinton," in "Study on the Operations of . . ." Unnumbered cover page.

seeking "fast track" authority to extend Nafta throughout Latin America. President Clinton asserted: [16]

> Already, over the last four years, more than 25% of our economic growth has come from overseas trade.

These misleading and plainly false remarks are then widely and repeatedly reported as fact by even the best national media and become a baseline for all "informed" discussion of every trade issue.[17] Even before the unfortunate events and misrepresentations surrounding a former White House intern became public in 1998, Frank Luntz, a Republican pollster known for lecturing his clients about the importance of language is reported to have said admiringly:

> The Clinton administration is the most linguistically disciplined operation in the history of modern politics. They have no shame. That is why what they say is so effective.[18]

And yet, statistically trade is a clearly defined and routinely measured component of the nation's economy—Gross Domestic Product. Like the number of days in a week or the number of months in a year, this is not a matter of opinion. It does not lend itself to interpretation of any kind—political or otherwise. By definition, GDP consists of four components: [19]

(1) Personal Consumption,
(2) Gross Private Investment,
(3) Government Expenditures,
(4) Net Exports Trade—export revenues less import payments for goods and services.

COMPONENTS OF THE U.S. ECONOMY—GROSS DOMESTIC PRODUCT: CONSTANT 1992-CHAINED PRICES

[In billions of dollars]

	Total GDP	Personal consumption	Gross private investment	Net exports trade: goods/services	Government expenditures
1993	$6,389.6	$4,343.6	$863.6	−$70.2	$1,252.1
1994	6,610.7	4,486.0	975.7	−104.6	1,252.3
1995	6,761.7	4,605.6	996.1	−96.5	1,254.5
1996	6,994.8	4,752.4	1,084.1	−111.2	1,268.2
1997	7,269.8	4,913.5	1,206.4	−136.1	1,285.0
1998	7,552.1	5,151.6	1,331.8	−238.3	1,297.3

Sources: U.S. Department of Commerce, BEA and MBG Information Services.

The effects of global trade involves very important and complex issues of productivity and access to vital resources (such as oil) which are discussed below. However, statistically, international trade has been a constant drag on the U.S. economy since 1982 with accumulated losses to the U.S. economy of $1.66 trillion over the past 15 years. Far from accounting for any of the country's GDP growth during the first six years of the Clinton Administration, net trade losses reduced real GDP by an average of −$126 billion or −1.8% of GDP per year.

[16] President William J. Clinton, "Radio Address by the President to the Nation: August 23, 1997" Nearly identical misstatements were made by the President in his high profile "Remarks on U.S.-China Relations" before The National Geographic Society, June 11, 1998. (Washington, DC: White House Press Office, 1997 and 1998.)

[17] As the first version of this report was being written, respected reporter Steve Roberts hosted a discussion of U.S. trade policy for the popular NPR Diane Rehm program on September 12, 1997. With the authority of a neutral moderator, Roberts noted the White House "points out" that trade accounts for more than a quarter of our nation's growth. "How can you be critical of those numbers?" he asks to no response and apparent common sense.

[18] Lutz is quoted by Peter Baker in "White House Finds 'Fast Track' Too Slippery," *The Washington Post.* September 14, 1997. Although *The Washington Post* has generally supported President Clinton and is among the most ideologically zealous and indifferent to fact in their support of "free trade," it has editorialized that "On subject after subject this (Clinton Administration) turns out to be a White House that you believe at your peril." Lead Editorial, *The Washington Post,* March 5, 1997.

[19] See for example Table B–2, "Real gross domestic product," in *Economic Report of the President: 1999,* (Washington, DC: Government Printing Office, 1999) pp. 328–329.

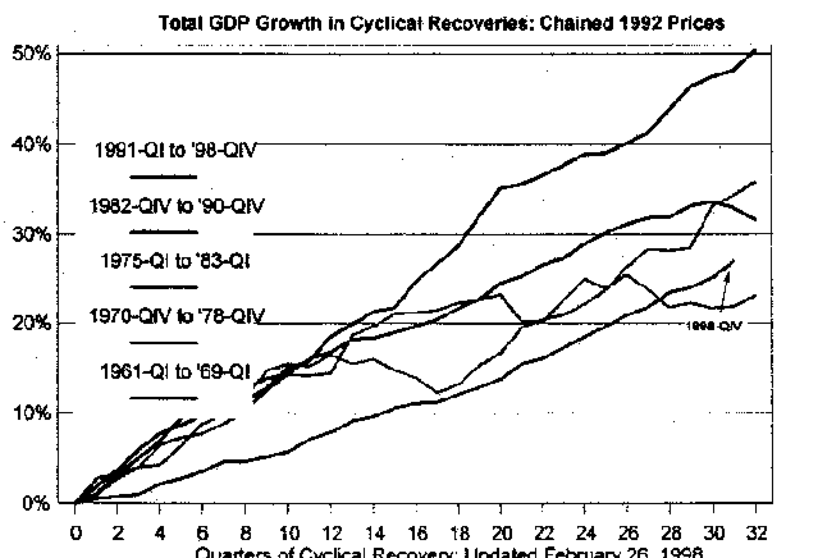
By definition, a trade deficit means that a country's domestic firms produce less than its consumers buy. That is, at its most basic level, trade deficits mean that trade is reducing—not expanding—overall markets of U.S.-based firms and workers.

This is one of the reasons that, despite the strongest bull stock market in history and strong consumer spending, real GDP growth in the past five years has averaged only 3.4% per year and why economic growth in the current eight years of cyclical recovery has been the second weakest of any similar modern period. Even those cyclical recoveries beginning in November, 1970 and in March, 1975 that did not last as long as the current expansion, had more real GDP growth after seven years than in the current period—even after the recessions of 1973–74 and 1980![20] Only the deep recession of 1982 drove the 1975–1982 growth pattern to be weaker than the current period. While the 1990s expansion has added 27% to the overall size of GDP, the comparable period in the recovery of the 1980s added 33% and the 1960s added 48%.[21]

The official U.S. government report assessing Nafta is particularly misleading on this key issue of U.S. economic growth. Insisting that "Strong growth in the United States stimulated U.S. demand for imports from Mexico . . ." a chart is presented with side-by-side bar graphs of GDP and Domestic Demand growth between 1993 and 1996.[22]

The graphic shows U.S. Domestic Demand soaring at more than twice the rate of U.S. GDP growth. This is nonsense. It compares apples with oranges. What is not disclosed in the graphic or in the text—is that it shows GDP growth in real, inflation adjusted terms and Domestic Demand in nominal terms which includes inflation. In fact, comparing apples with apples, real growth of U.S. consumer expenditures was marginally slower than real U.S. GDP growth between 1993 and 1996; Final Sales of Domestic Product was a bit slower than GDP growth; and Gross Domestic Purchases was only marginally faster than GDP.

The Current Recovery Has Been Historically Weak



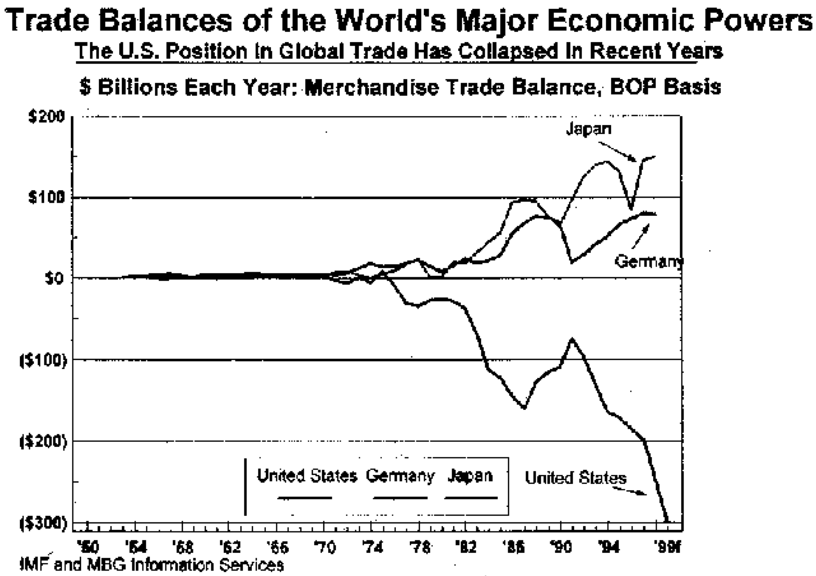
U.S. Department of Commerce and MBG Information Services

[20] Certainly another key factor in recent slow growth has been constrained government spending that skyrocketed in the 1980s. This peaked in 1992 and actually fell, adjusted for meager inflation, during the Clinton term as sharp reductions in Federal spending more than offset spending growth by state and local governments.

[21] These figures reflect the February 26, 1999 updates and revisions to quarterly GDP data by the Department of Commerce, Bureau of Economic Analysis.

[22] Office of the U.S. Trade Representative and others, "Study on the Operations of . . ." p. 13.

Another claim made by advocates for Nafta is to consider the "total picture of global trade." This argument, made by a few academics such as Sidney Weintraub is that Mexico has been a net benefit to overall trade by displacing imports from Asia.[23] It is argued that this displacement benefits U.S. producers because of Nafta's requirement of significant local content requirements along with other efficiency benefits of proximity.[24] Unfortunately, even before the current Asian financial crisis, the experience of five years has shown that soaring U.S. imports from Mexico are not displacing U.S. imports from Asia but are merely an even faster growing addition to those imports.



In fact, since implementation of Nafta, the U.S. has suffered the worst dollar losses in history for traded merchandise and for manufactured goods—a subset of merchandise excluding principally oil and agriculture. The U.S. merchandise trade deficit soared from −$73.8 billion in 1991 and −$96.1 billion in 1992, to consecutive records during Nafta of −$166.2 billion in 1994, −$173.7 billion in 1995, −$191.3 billion in 1996, −$198 billion in 1997, and −$248 billion in 1998. That is, global U.S. merchandise trade losses soared to a record −$977 billion in the first six years of Nafta.

Global U.S. dollar losses for traded manufactured goods have also been the worst in history since Nafta as deficits have soared from −$47.3 billion in 1991 and −$65.9 billion in 1992 to record losses of −$127.0 billion in 1994, −$144.7 in 1995, −$137.2 billion in 1996, −$137.3 billion in 1997 and −$197.2 billion in 1998. That is, global U.S. manufactured goods losses soared to a record −$744 billion in the first five years of Nafta and will approach −$1 trillion in losses when the current sixth year is complete.

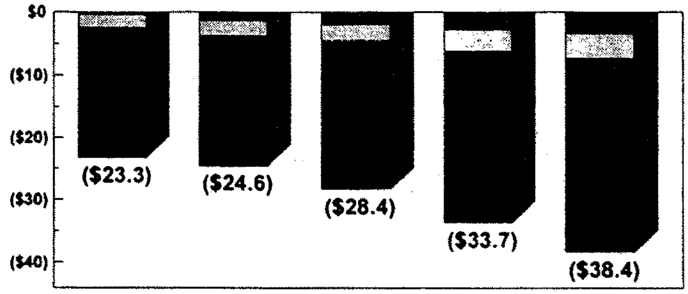
Imports and trade deficits from Asia have continued to grow rapidly during the first five years of Nafta. The U.S. auto complex (autos/trucks/parts) suffered an unprecedented −$80 billion trade deficit in 1998—its third straight record of global losses—as soaring imports from Mexico merely add to import growth from Asia. Despite strong consumer demand, the U.S. textile and apparel industry has lost 360,000 jobs over the past five years and suffered its worst trade losses in history as sharp import growth from Mexico merely adds to import pressures from Asia.

[23] Sidney Weintraub's "Three Years Later, NAFTA Proves the Naysayers Wrong," *The Los Angeles Times,* March 2, 1997 and in his full report, "Nafta at Three: A Progress Report," (Washington, DC: Center for Strategic and International Studies, 1997) Mr. Weintraub often writes in the *L.A. Times* which will not acknowledge his errors.

[24] See, for example, The American Textile Manufacturers Institute's recent report "Free Trade in the Americas," February, 1999. Especially pp. 11–12.

U.S. Textile & Apparel Trade Losses
Continue to Worsen With Asia, Mexico and CBI

$Billions in NET Export Losses Each Year



	1994	1995	1996	1997	1998P
Mexico	($0.4)	($1.3)	($1.9)	($2.8)	($3.5)
CBI	($2.1)	($2.5)	($2.6)	($3.5)	($4.0)
Asia	($20.8)	($20.8)	($23.8)	($27.5)	($31.0)

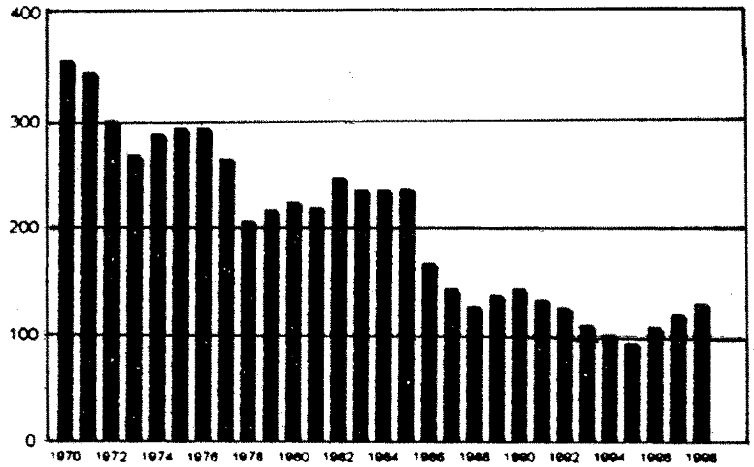
OTEXA and MBG Information Services

U.S. global trade performance since Nafta is also the worst on record as a percent of GDP for periods when the dollar is weak—below its so-called purchasing power parity (PPP) value.[25] Global trade losses have been worse than today only in two periods that were associated with an unsustainably strong exchange rate for the U.S. dollar—1970–1974 and 1984–1988. In the first period, with the dollar based on gold and worth 360 Japanese Yen and 3.6 German Marks, President Nixon was forced by this concern for trade losses to abandon the gold standard and allow the dollar to be sharply devalued by market forces.

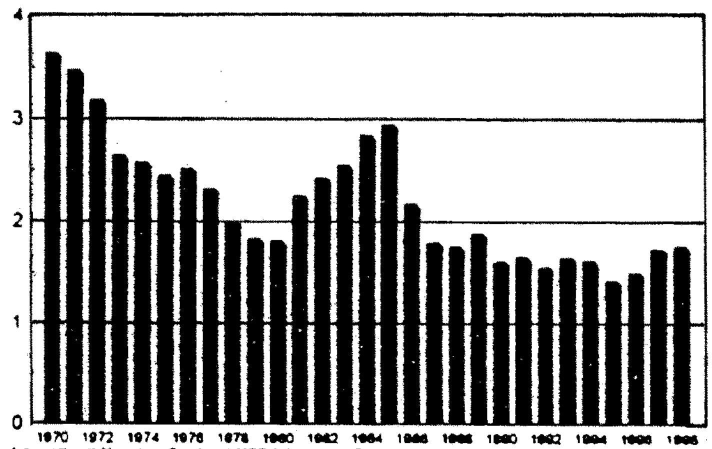
The second period followed very rapid economic growth, unprecedented federal budget deficits and extremely high real interest rates (real GDP grew by 7% in 1984). After having fallen sharply since 1970, the dollar rose to a value of 240 Japanese Yen and three German Marks. Concerned by widening trade losses, President Reagan organized the so-called "Plaza Accord" in March, 1985 and other activities to assist world financial markets in reducing the value of the "too" strong dollar.

[25] Purchasing Power Parity is a traditional "common market basket" tool used by economists before floating exchange rates to estimate the appropriate rate of exchange between different national currencies. It continues to be used in estimates of relative living standards and (inappropriately) for comparing cross-national productivity levels. The Organization for Economic Cooperation and Development (OECD) in Paris regularly provides the most widely used estimates, see OECD, *Main Economic Indicators: January. 1999.* (Paris: OFCD, 1999).

Number of Japanese Yen That One U.S. Dollar Could Buy: Annual Rates



Number of German Marks That One U.S. Dollar Could Buy: Annual Rates



Many prominent economists urged policy-makers in the mid-1980s to ignore the trade deficit with the assurance that it would be eliminated when the dollar fell in value to only 220 Yen . . . or 200 . . . or, certainly by 175 Yen. But the dollar's value fell to as low as 84 Yen in the spring of 1995 and is today worth only about 120 Yen.[26] Even among the various private and government indexes of the dollar's value that adjust for differentials in inflation and are trade-weighted, the dollar fell to its weakest level ever in 1995 and remains today at historically low values. The current OECD estimate of PPP values for 1998 has the dollar worth 163 Yen and 2.01 German Marks. Perhaps it should also be noted here that the PPP just listed for Mexico in 1998 is 5.03 Pesos per U.S. dollar.

Similarly, during the period of 7% annual GDP growth in the mid-1980s, –$200 billion annual federal budget deficits, 10% real interest rates, and an "overvalued dollar," many prominent economists began to reverse historic understandings of trade. The popular logic became that the overvalued dollar was causing the trade deficit; the overvalued dollar was caused by high real interest rates which were

[26] See, for example, C. Fred Bergsten and William R. Cline, *The United States-Japan Economic Problem,* (Washington, DC: Institute for International Economics, 1985).

caused by the shortfall of savings which was caused by the federal budget deficit and by run-away consumer spending.

Trade concerns became secondary to reducing the U.S. federal budget deficit—a matter emphasized in every G–7 meeting and most trade negotiations during the mid-to-late-1980s.

This unique logic of the mid-1980s in the U.S. had strong appeal and was supported by much of the data. However, since 1988, with a weak dollar, U.S. economic growth far below global averages until 1998, a sharp decline in the federal budget deficit now become a surplus, the unique trade logic of the mid-1980s is no longer supported by the data. U.S. economic growth has been slower than world growth every year between 1984 and 1997, and the dollar has been well below its PPP value since 1987.

Today's record trade losses are quite clearly NOT the result of an overvalued dollar, nor of persistently strong U.S. economic growth, nor of large federal budget deficits. As before the unique period of the mid-1980s, today's trade deficit is clearly a major cause—not a consequence—of the U.S. savings shortages.

Nafta's Failed Industry Assumptions

As important as the failure of the Nafta promoters' macro-level forecasts are the failure of their forecasts about the detailed composition of trade. Relying on 18th century economic realities of national comparative advantage, promoters ignored the extraordinary new powers of transnational firms and new global production technologies to assume: [27]

> Over the long term, the main impact of larger U.S.-Mexican trade will be higher incomes made possible by greater efficiency and faster growth. Efficiency in both economies will be boosted by the tendency of each country to export those goods and services in which it has a comparative advantage.

Perhaps it is an unexamined faith that the content of this old pattern has not been affected by new technologies and organizational abilities that leads Nafta promoters to wrongly accuse empirical analysts of equally obsolete concerns. Reflecting this long and unchanging tradition, Hufbauer and Schott accuse of embracing a simplistic "pauper labor theory" those who find no support in the data for their obsolete theories.[28]

They assure that huge differentials in labor and other production costs in Mexico compared with the U.S. are still of little importance to firms or major traded industries because they are offset by the far higher general levels of U.S. productivity.

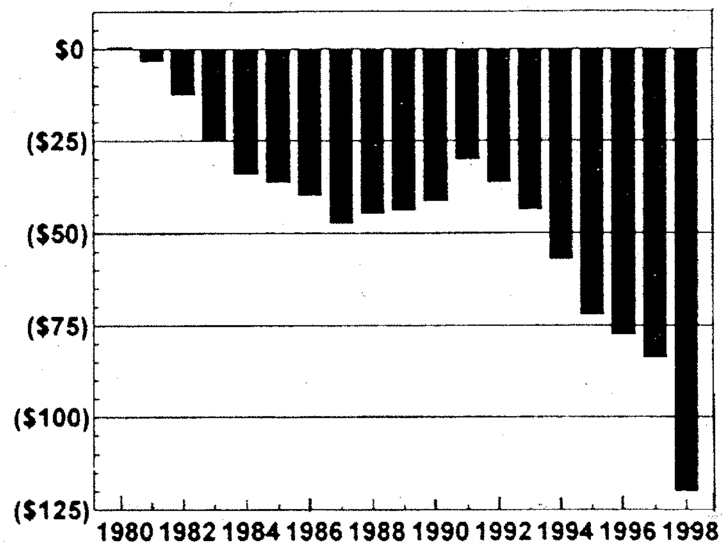
Yet the rapid changes in trade patterns have shown quite clearly for many years that these old truisms have been radically transformed in the U.S. by modern capabilities of transnational firms. The times have long passed when the U.S. was a big net exporter of sophisticated equipment to Less Developed Countries (LDCs) while importing primarily raw materials, apparel and footware. More recently, the Clinton Administration has made this same baseless argument concerning oddly-named "Big Emerging Markets" (BEMs) which include Mexico and 17 other mostly larger LDCs and excludes OPEC. The BEMs include: Argentina, Brunei, Brazil, China, Hong Kong, India, Indonesia, S. Korea, Malaysia, Mexico, Philippines, Poland, Singapore, S. Africa, Taiwan, Thailand, Turkey, Vietnam.[29]

[27] Hufbauer and Schott, p. 23.

[28] Hufbauer and Schott, p. 12. In recent years the most prominent advocate of this obsolete, counterfactual faith is Paul Krugman. See his oddly titled "Does Third World Growth Hurt First World Prosperity?" *Harvard Business Review* July/August, 1994. pp. 113–121. A detailed critique of some of Krugman's larger errors of fact, logic and scholarship is in Charles W. McMillion, "Third World Growth," *Harvard Business Review;* Sept/Oct, 1994. pp. 181–183.

[29] U.S. International Trade Administration, "The Big Emerging Markets," *Business America,* March, 1994. More recently, see Jeffrey E. Garten, *The Big Emerging Markets and How They Will Change Our Lives,* (New York: Basic Books, 1997).

$ Billions: Annual U.S. Merchandise Trade Deficits to BEMs



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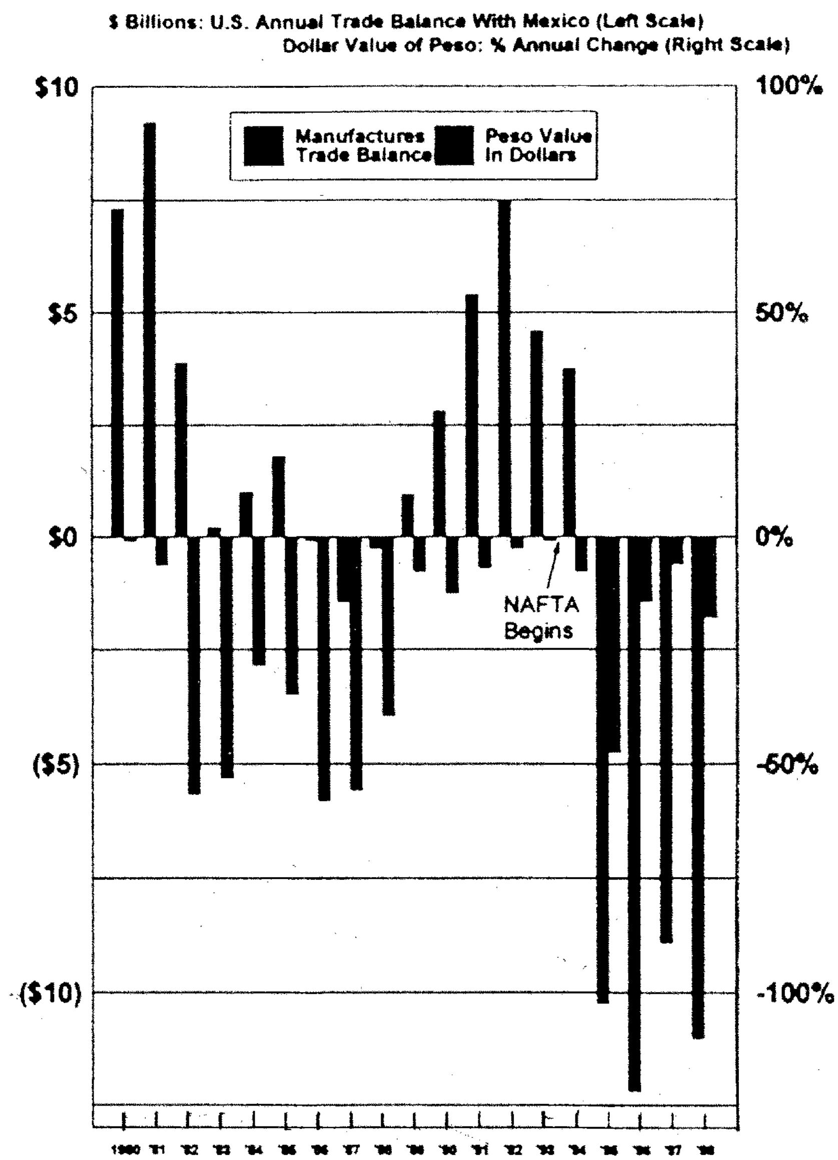
The major U.S. imports from BEMs have long been high value added manufactured goods such as machinery and transportation equipment. Even with some residuals of the Cold War remaining—particularly in aircraft and defense related electronics—the U.S. has had chronic and now rapidly deepening manufacturing trade deficits with BEMs. These key manufacturing trade losses set new records in each of Nafta's first five years: −$60 billion in 1994, −$77 billion in 1995, −$82 billion in 1996, −$84 billion in 1997 and perhaps −$120 billion in 1998. This is a net loss in manufacturing trade to the so-called "Big Emerging Markets" of over −$400 billion during the first five years of Nafta.

By sharp contrast, the U.S. has long enjoyed a trade surplus, or only a small deficit, in manufacturing trade with developed countries other than Japan. U.S. trade losses to Japan have been very deep and persistent.

But U.S. manufacturing trade losses to low wage, low regulatory cost LDCs are large and growing rapidly. Mexico has only added to these losses with unprecedented deficits of −$10-to-$12 billion each year since 1995. Oddly, neither the official government "assessment" of Nafta's affects nor any of the "independent" assessments from major institutions seem to have noticed—much less assessed—this major change.



U.S. Dept. of Commerce and MBG Information Services

As important as the overall shift and imbalance in U.S./Mexico trade since Nafta, is the industry composition of trade. Agricultural and steam engine era assumptions of national comparative advantage upheld by Nafta promoters holds that U.S./Mexico trade, even with imbalance, will spur productivity and therefore growth and prosperity for both countries. Each country will specialize in industries where it is most efficient, increasing net exports in those industries, and will shift out of industries where it is less efficient, increasing net imports.

Clearly, as with competitive domestic markets, such specialization based on productivity and product quality would be a benefit that could offset some or all of the

U.S. losses from trade deficits. These considerations are quite important in assessing the benefits of U.S. interstate trade and of U.S. trade with Canada and Europe where production cost differentials are comparable.

But Mexico is not Canada or Europe and it is preposterous for economists and politicians to ignore the massive differences in conditions and commercial patterns. The poorly enforced minimum wage in Mexico in March, 1999 is 31.91 New Pesos per day—$3.20 per day at current exchange rates. Compensation for manufacturing workers in Mexico have officially fallen from −85% below U.S. costs in 1993 to −90% less than U.S. costs today following five years of Nafta.[30] It should be noted that during the past five years total real compensation per hour for U.S. labor has risen by less than 3%—virtually all this increase coming in 1998. Real U.S. manufacturing compensation has grown less than 4% during the period, with most of the increase also coming in the last year. The widening gap between U.S. and Mexican wages during Nafta has therefore been the result of falling wages in Mexico and virtually stagnant wages in the U.S.

A new study by Miguel Szekely, an economist at the Inter-American Development Bank, points out that Mexico's consumers have suffered a 39% drop in purchasing power over the past five years.[31] The report, written for the United Nations Development Program, shows that two-thirds of Mexico's population is now considered "poor," compared with less than half that was considered so before Nafta. Szekely notes that it would take five years of very strong economic growth just to recovery to the high poverty levels that existed in Mexico even a generation ago. It is now quite difficult to foresee a time when Mexico can be a significant customer for U.S.-made products.

Trade with Mexico, as with other BEMs, is driven not by traditional efficiencies and inherent comparative advantages of national firms but by transnational firms taking advantage of tremendous cost savings, undermining smaller national firms.

For example, Mexico has no "national" auto producer. Nevertheless, in 1998 Mexico exported 99,000 more cars *just to the U.S.* than firms producing in the U.S. exported to Mexico and to the rest of the world *combined.* Producers in Mexico shipped 587,000 cars to the U.S. last year while producers in the U.S. exported only 488,000 cars to the world—including to Mexico. The U.S. paid $28.3 billion for imported cars, trucks and parts from Mexico in 1998 while earning only $11.7 billion for mostly outsourced industry "exports" to Mexico.[32]

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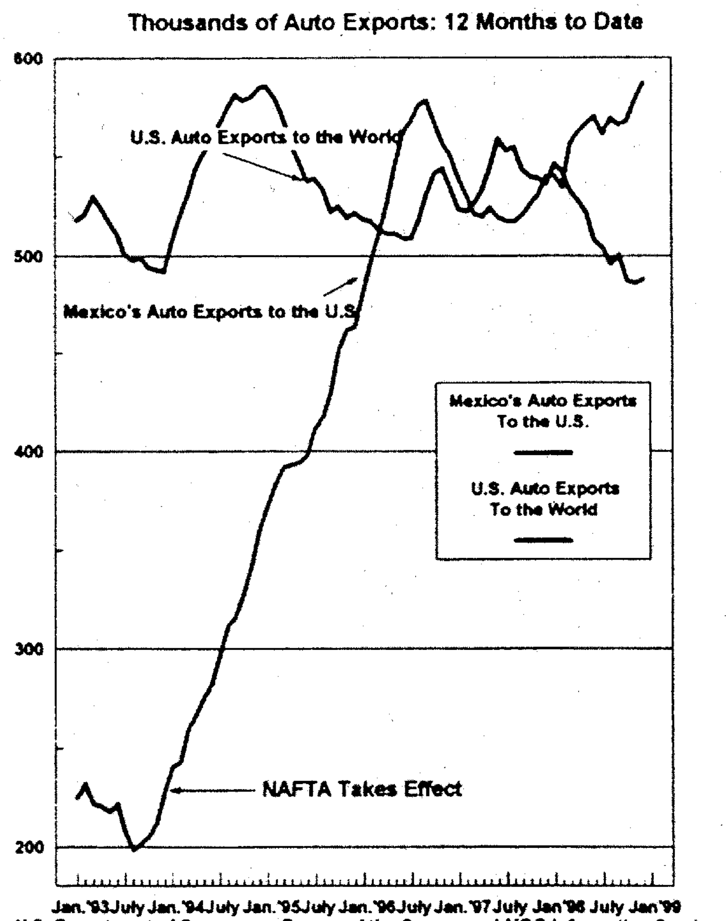
[30] U.S. Dept. of Labor, BLS, "International Comparisons of Hourly Compensation Costs for Production Workers in Manufacturing, 1975–1998," September, 1998. Table 1. USDL 98–376.

[31] Reported by Joel Millman in a front page report of the *Wall Street Journal,* "Is the Mexican Model Worth the Pain?" March 8, 1999.

[32] Unit figures are available for auto and truck exports and production from the U.S. Department of Commerce, Bureau of Economic Analysis. The dollar value of cars, trucks and parts imports and exports are available in the BEA's "International Trade in Goods and Services: December, 1998," (FT900), Exhibit 18.

Mexico Exports 100,000 More Cars To the US
Than The US Exports to the World – Including to Mexico



U.S. Department of Commerce, Bureau of the Census and MBG Information Services

Indeed, across the entire spectrum of traded industries, it is hard to imagine how anyone even remotely knowledgeable about U.S./Mexico commercial patterns could make a case that it is driven primarily by traditional forces of productivity and national comparative advantage.[33] Unfortunately, Nafta proponents do not attempt to make their arguments based on the data but—despite the awful track record—merely assert obsolete theories as fact or forecast.[34]

[33] Traditionally, productivity has generally been taken to refer to the productivity of labor which is relatively fixed in a location. Today, trade is being driven largely by the productivity of capital which is instantly and globally mobile driving factor price equalization.

[34] Even Nora Claudia Lustig, an insightful scholar of Mexico at the Brookings Institution, ignores the content of U.S./Mexico trade and assumes that any increase in the total volume is driven by traditional productivity and national comparative advantage forces as she joins the popular celebration of Nafta's "success." See her *Nafta: Setting the Record Straight,* (Washington, DC: Brookings Policy Brief No. 20, 1997).

Indeed, U.S./Mexico trade patterns are almost the opposite of what Nafta supporters might believe.[35] U.S. net export losses to Mexico are now concentrated in autos and electronics with losses now emerging in optics and precision instruments, and machinery including computers and computer components. U.S. net export gains are largely in bulk commodities such as cereals, oil seed, organic chemicals, pulp wood and animal fats. Even the few manufactured goods with net export gains are concentrated in bulk commodities such as plastic boxing and packing materials, cereal and assorted seeds and fruit.

U.S. TRADE WITH MEXICO: LOSSES ARE CONCENTRATED IN VEHICLES AND ELECTRONICS

[In billions of dollars]

Annual balances HITC codes & industries	Before Nafta 1991–1993	After Nafta 1994–1998	Annual Change
Merchandise totals:	$3.1	−$12.4	−$15.5
5 Industries Suffering Largest Net Export Losses Since Nafta			
87 Vehicles	−$0.8	$6.5	−$5.6
85 Electrical machinery	−2.1	−5.2	−3.1
84 Machinery and parts	2.5	0.3	−2.2
27 Mineral fuels	−3.7	−5.1	−1.4
90 Precision instruments	0.5	−0.6	−1.1
5 Industries Enjoying Largest Net Export Gains Since Nafta			
12 Misc. grain, seed, fruit	$0.5	$0.8	$0.3
29 Organic chemicals	0.6	0.9	0.3
48 Paper/paperboard	8.5	1.2	0.4
10 Cereals	0.7	1.2	0.5
39 Plastics and articles	1.5	3.0	1.4

Sources: U.S. Dept. of Commerce, Bureau of Census and MBG Information Services.

Clearly a process that leads the U.S. to specialize in plastic, cereals, paper boxes, cereals, organic chemicals and assorted fruits and seeds while moving away from autos, electronics, and machinery such as computers is not a net positive for the U.S. economy, its workers or domestic producers. It contributed to the virtual stagnation in overall U.S. productivity growth in 1994 and 1995 and is one reason that productivity growth (despite strength in 1996 and 1998) has been the weakest ever recorded in the current recovery.

However, this upside-down trading pattern is good for the few transnational firms that are rapidly increasing their production in or contracting out to Mexico.[36] Oddly, this contracting out is uncritically celebrated as "jobs creating exports" in all "assessments" by Nafta promoters. Yet 46% of all U.S. "exports" to Mexico and 65% of U.S. imports from Mexico were intra-firm transactions in 1997.[37] The detailed data of the major traded industries tell an even more interesting story as 92% of imported vehicles and parts were intra-firm, 84% of electrical machinery and parts, and 89% of telecommunications and sound equipment. And of course, these are only the transactions linked by intra-firm stock ownership and do not include the many other forms of contract and sourcing relationships.

The overwhelmingly intra-firm nature of U.S. trade with Mexico raises a complex set of measurement problems particularly for the politically sensitive issue of the effect of trade on jobs. Exports "create" or "support" *new* jobs only to the extent that exports represent *new* production. Certainly, if a firm, closes part of its production process in California, moves it to Mexico but continues to supply its new Mexican

[35] Importantly, this new post-Nafta trade pattern does NOT now exist with the Caribbean, and the rest of Latin America where the U.S. continues to enjoy both overall net export surpluses and surpluses in the expected high productivity industries of machinery, electronics and autos.

[36] In Nafta's first year, Mexico became the largest source of contracted-out production sharing. U.S. International Trade Commission, *Production Sharing: Use of U.S. Components and Materials in Foreign Assembly Operations. 1991–1994.* (Washington, DC: ITC, May, 1996).

[37] Related Firm trade is defined by the Tariff Act of 1930 to include transactions between parties with ownership or control of 6% or more of the outstanding voting stock in its partner. U.S. Dept. of Commerce, Bureau of Census, "U.S. Goods Trade: Imports & Exports by Related Parties: 1997," (Washington, DC: DOC, May 14, 1998). Detailed industry data for Mexico come from a special data run by the Bureau of Census.

facility with components, U.S. "exports" have increased but U.S. jobs have been reduced. Other firms that previously supplied the operation in California and were able to continue to supply the relocated operation in Mexico would appear as new exporters even if they sold the operation less than previously.

Although it is not possible to quantify, clearly many U.S. exports to Mexico are of this contracting out type that "destroy" rather than "create" jobs in the U.S. Yet the methodology that attributes jobs created or sustained by exports to Mexico ignores this major factor.[38] Even more importantly, while every serious analyst in the past considered both imports and exports, today Nafta advocates ignore jobs displaced by imports. There is no substantive basis for this shamelessly misleading practice.

Today's global economy makes bi-lateral assessments inherently complex. Nonetheless, the Department of Commerce calculates that it now requires 14,000 full time jobs to produce $1 billion worth of traded goods. Ignoring the job displacements from contracting out many U.S. "exports" to Mexico, applying this formula to the U.S. net export loss to Mexico of $16.8 billion in 1998 suggests a displacement of 235,000 higher wage U.S. jobs to Mexico trade. A proper accounting for jobs lost to contracted out "exports" would sharply raise the total job displacement figure to the range of 300,000.[39]

Also key in any assessment of U.S./Mexico economic relations since Nafta is the effect of the relationship on the wages of working U.S. consumers. Again, the recent flood of reports from Nafta promoters are extremely misleading in their treatment of this important issue. Even in the Hufbauer and Schott report that was featured in selling Nafta it was noted that: [40]

> Based on the 1990 composition of trade, the median weekly wage associated with U.S. exports to Mexico and U.S. imports from Mexico were practically the same: about $420 to $425 per week. This calculation is striking because it suggests that there is no overall tendency for U.S. exports to Mexico to support high-skilled U.S. jobs, nor for U.S. imports from Mexico to displace low-skilled U.S. jobs.

That is, even by the calculations of Nafta's strongest supporters, in 1990 wages associated with U.S. exports to Mexico paid −$5 per week less than jobs displaced by U.S. imports from Mexico. Since 1990, as discussed above, the composition of U.S./Mexico trade has shifted dramatically in ways that have likely widened this disparity. Imports from Mexico have grown faster than exports to Mexico since Nafta implementation, indicating a force of downward pressure on wages.

Kate Bronfenbrenner has documented wide use of intimidation by transnational interests threatening relocation to Mexico to force U.S. workers into concessions on wages and benefits.[41]

Most important, although it is again not possible to document or quantify, is the intense market pressure on wages, profits, regulatory compliance and most other U.S. production cost factors from transnational production in a nation on the U.S. border with a population three times the size of Canada. Many Nafta advocates now attempt to trivialize Mexico's effects on U.S. workers and firms by the fact that due to Mexico's impoverishment its GDP is only 1/28th the size of the U.S. economy. Yet with a population of almost 100 million, Mexico's labor force is growing by well over one million each year—more than half the size of U.S. labor force growth. This is one important reason why real compensation per hour for all U.S. nonfarm workers declined during the five years ending in 1997—even in a time of cyclical recovery and low unemployment.[42]

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[38] Lester A. Davis, *U.S. Jobs Supported by Goods and Services Exports: 1983–94,* (Washington, DC: U.S. Dept. of Commerce, Economics and Statistics Administration, Nov. 1996) The current report attributes 729,000 U.S. jobs from exports to Mexico—approximately 14,000 jobs to each $1 billion in goods exports. There are no country specific data for services.

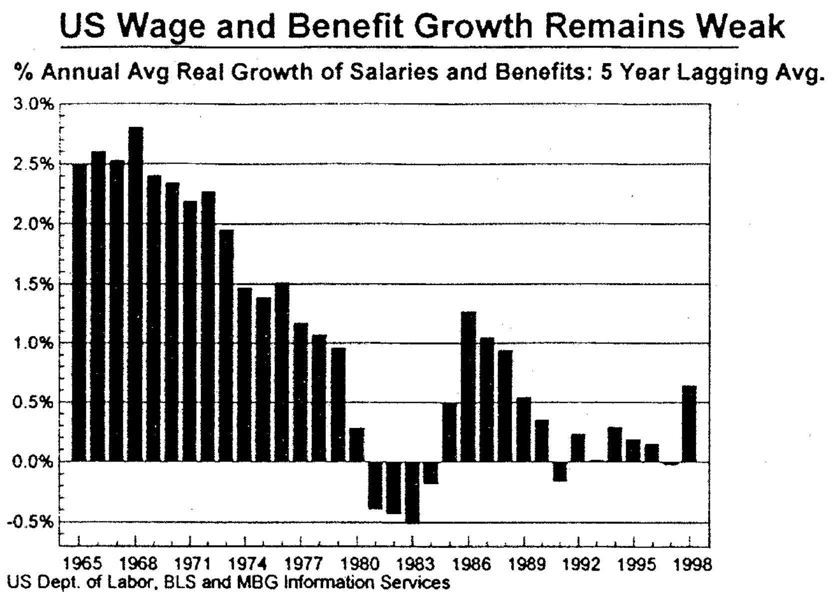
[39] In February, 1999, total U.S. employment in traded manufacturing and mining is −931,000 below its 1990, post-recession levels. While 15.3 million net new U.S. jobs have been created since Nafta took effect, virtually all have come in services as fewer than 0.3 million net new jobs were created in traded manufacturing or mining sectors.

[40] Hufbauer & Schott, p. 21. (Their table, p. 16, shows that even before the U.S. lost its manufacturing surplus with Mexico, export-related jobs paid $420 per week and jobs displaced by imports from Mexico paid $424.)

[41] Kate Bronfenbrenner, *Final Report: The Effects of Plant Closing or Threat of Plant Closing on the Right of Workers to Organize,* (Cornell University, Program on Labor Education Research, September, 1996.)

[42] The U.S. Dept. of Labor, BLS data series on "Productivity and Costs," shows real compensation per hour for all nonfarm workers with an index of 100 in 1992 and 99.9 in 1997 (latest data from release of March 9, 1999.)

Real compensation appears to have grown by 2.6% in 1998, its strongest rise since 1986. Yet the extraordinary wage and benefit stagnation of recent years continue to be reflected in many ways. Consumer debt levels and ratios have reached record highs, personal savings rates actually fell to negative in late 1998—for the first time since 1933. Certainly there are many causes for these developments but there is no question but that Nafta's investment and trade provisions with Mexico are key factors.



Finally, despite their confident forecasts six years ago, Nafta advocates now insist that Mexico's recent economic and trade performance have nothing to do with Nafta but have been driven by a never before witnessed devaluation of Mexico's Peso.

But Peso devaluations have been a common occurrence in Mexico for a generation. The 47% devaluation of 1994–95 was less severe than devaluations in 1982, 1983, 1986 and 1987 and barely worse than those in 1984, 1985 and 1988. Why was $42 billion in U.S.-tax-payer-backed stabilization loans necessary to avoid even greater crisis in Mexico after Nafta's first year? Even with this, why has Mexico suffered its worst depression since the 1930? Why have Mexican wages fallen 30% below pre-Nafta levels and the differential with U.S. wages widened? Why are U.S. trade losses twice as large as ever before and concentrated, for the first time, in highly productive, high wage manufacturing industries of autos, electronics and machinery?

As indicated at the outset, the principal reason is the Nafta guarantees to investors and speculators that have left Mexico vulnerable to global events, investors and speculators.[43] Nafta's investment and trade provisions have clearly failed the vast majority of Americans as well as Mexicans. The failures of Nafta provide important lessons not only for U.S. policymakers but for Asia and for developing and

[43] See especially Chapter 11; Article 1110 of the Nafta agreement which states: *No Party shall directly or indirectly nationalize or expropriate an investment of an investor of another Party in its territory or take a measure tantamount to nationalization or expropriation of such an investment.*

This language so clouds the legal concept of a "taking," that the Ethel Corporation, for example, brought a $251 million lawsuit against Canada in an autonomous Nafta tribunal charging the attempt to ban a gasoline additive MMT as a toxin constitutes "expropriation." For a recent overview of a wide variety of cases see "Trade Pacts Accused of Subverting U.S. Policies," *Los Angeles Times,* February 28, 1999.

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transnational states everywhere. To ignore this experience and lurch ahead with obsolete theories of globalization could be a fast track to even deeper and wider trouble.

The CHAIRMAN. Now I want to thank you for coming and testifying. You have done an enormous amount of work in preparing yourself. And I am the sort of fellow that would like to have the Ambassador and you sitting side by side with boxing gloves figuratively and——

Dr. MCMILLION. Mr. Chairman, he is from Dallas, and I am from Fort Worth. So this goes way back.

The CHAIRMAN. I see.

Well, I thank you and I thank the witnesses who have already departed, with the understanding that these proceedings will be printed, with my gratitude with you and others.

There being no further business to come before the committee, we stand in recess. Thank you very much.

[Whereupon, at 4:09 p.m., the hearing was adjourned.]

APPENDIX

Responses of Ambassador Fisher to Questions Submitted by Senator Helms

Question. Are you aware that Guilford Mills, along with Cone Mills, is investing $411 million over the next five years in something called the "textile city" in Mexico where all the bolts will be manufactured?

Answer. We have seen press reports about these investments. We have not consulted the companies about these investments but we assume they are part of the companies' strategies to increase their global competitiveness. A global strategy, including diverse manufacturing presences, is a hallmark of most successful large U.S. companies. The outstanding performance of the United States economy in recent years, including low unemployment and inflation, strongly suggests that globalization is, on balance, highly positive for the U.S.

Question. A December 1998 ITC Report states, "Recent announcements by several U.S. textile manufacturers to establish or further expand their textile operation in Mexico can be expected to encourage the growth of full package services in Mexico" Isn't that comment—and the Administration's argument inconsistent with the facts?

Answer. To the extent that a textile company wishes to offer "full package services" (i.e. finished apparel), it makes sense for that company to locate production where it can most efficiently compete with imports from the Far East. However, U.S. textile companies are pursuing a variety of strategies for competing in the U.S. and other markets, and it remains to be seen how extensively the industry will embrace the full package concept.

Question. You mentioned that the unemployment rate in North Carolina is low, and you're right. Nobody is more pleased about that than me. But I am not so concerned with Charlotte or the Research Triangle. They can take care of themselves. I am concerned about the folks in Swain County, where the unemployment is 22%. Or Graham County where the unemployment rate is 11.5%. In Cherokee County the unemployment rate was 11.6% before Levi's announced it was closing.

- What is your plan for these communities?

Answer. Despite the impressive record of job growth in North Carolina and throughout the United States, the Administration remains deeply concerned about the job dislocations in the United States, and is responding to these concerns in a variety of ways. The best way to address the problems, at the federal level, is with economic policies that foster growth, and with investments in training and education so that all our workers can compete. The communities you cite, located in the far western corner of North Carolina, have a long history of economic hardship, well before the NAFTA entered into force. In Swain County, for example, 27.6 percent of the population was below the poverty level in 1992, Cherokee County's poverty rate was 20.4 percent, and Graham's poverty rate was 24.9 percent in 1989. Unemployment rates have been persistently high. In 1992 for example, the rates in the three counties, respectively, were 12.9, 9.9, and 25.7 percent. To address these problems, we would note the following:

In addition to creating a more viable environment for competitive U.S. textile manufacturing in the U.S. through NAFTA, the Administration is strongly committed to improving the technology and manufacturing processes used by the U.S. textile and apparel industry so that we can keep and generate good jobs in the U.S. through enhanced productivity. Towards this end, the Department of Commerce administers grants for technological research to the Textile/Clothing Technology Corporation in Raleigh and the National Textile Center, a research consortium of six universities including North Carolina State.

The Commerce Department's Economic Development Administration has a program for firms which can demonstrate that sales have been adversely impacted by imports.

The Labor Department has a Trade Adjustment Assistance Program to assist workers who have jobs that are threatened by, or adversely impacted, by imports. Since the inception of the NAFTA, a special program was established for workers threatened by and adversely impacted by imports from Mexico or Canada.

In Swain County, the Business Microloan Program is funded by the Small Business Administration (SBA) and can offer loans of $25,000 or less to meet the financial needs of small businesses. Self-Help also provides some management assistance to prospective borrowers in conjunction with these loans. With SBA Guaranteed Loans, Self-Help can give flexible repayment terms and collateral requirements for a small business borrowing up to $850,000. SBA also maintains a Tribal Business Information Center in Cherokee, and oversees the Certified Development Company (CDC) Program to provide growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. A Certified Development Company is a nonprofit corporation set up to contribute to the economic development of its community or region. CDCs work with the SBA and private-sector lenders to provide financing to small businesses. The local CDC for the areas you cite is the Smokey Mountain Development Corporation.

Question. According to your argument on global free-markets, everyone must compete in the global market, and yet when the Asian economies collapsed, because they couldn't compete, we bailed them out. When the Mexican economy collapsed, we were there with billions of dollars.

- How is this free trade when we are subsidizing the very people my constituents are competing against?

Answer. The "bailouts" of Mexico and Asia were primarily financial sector assistance packages, not subsidies. It is in the national interest of the United States to safeguard the international monetary system by which all markets operate. In Mexico's case, its balance of payments policy in 1994 was unsustainable after internal political shocks precipitated a cessation of capital inflows, causing foreign currency reserves to fall to intolerably low levels. Mexico was forced to devalue the peso and to eliminate its large current account deficit. The Mexican authorities responded to the resulting recession by firmly implementing a strong economic adjustment program—backed by U.S. and other international support, and fully respecting its NAFTA obligations to liberalize trade with the United States and Canada—which allowed Mexico's banking sector to avoid default on its external debt, and Mexico's economy to return to its path of steady growth. Our financial package did not lose taxpayer money, and in fact we made money for the U.S. Treasury from Mexico's interest payments. In return, we got commitments to economic reform which led to a rapid return of growth combined with the NAFTA market-opening disciplines to the benefit of U.S. economic opportunity, growth and exports.

As the IMF has stated, the Asian crisis unfolded against the backdrop of several decades of outstanding economic performance in Asia, and the difficulties that the East Asian countries face are not primarily the result of macroeconomic imbalances. Rather, they stemmed from weaknesses in financial systems and, to a lesser extent, governance. A combination of inadequate financial sector supervision, poor assessment and management of financial risk, and the maintenance of relatively fixed exchange rates led banks and corporations to borrow large amounts of international capital, much of it short-term, denominated in foreign currency, and unhedged. As time went on, this inflow of foreign capital tended to be used to finance poorer-quality investments.

The World Bank, the Asian Development Bank (ADB), and the International Monetary Fund (IMF), have aided the United States' efforts to reestablish confidence in the affected countries by encouraging them to undertake a temporary tightening of monetary policy to stem exchange rate depreciation; correcting the weaknesses in the financial system; implementing structural reforms to remove features of the economies that had become impediments to growth (such as monopolies, trade barriers, and non-transparent corporate practices) and to improve the efficiency of financial intermediation; reopening or maintaining lines of external financing; and maintaining sound fiscal policy while protecting social spending.

Question. Considering the Africa Trade Bill, please explain how the USTR suddenly decided it will presume 90% of eligible textile and apparel items will be considered import sensitive and therefore would not be granted the import preference according to the CBO?

- Do you normally make presumption like that?

Answer. USTR has not provided an estimate or made any assumptions. We have stated that, should the Congress provide the authority, we would conduct the normal review of eligible articles before deciding which to designate for GSP benefits.

This review process includes obtaining ITC advice on the economic effects and multiple opportunities for written public comment and hearings.

Question. Was it contemplated at the inception of NAFTA that General Motors would be Mexico's largest private sector employer?

Answer. No. As far as we can determine, the Administration did not engage in forecasts of the composition of the Mexican labor force in June of 1990, when Presidents Bush and Salinas agreed to engage in negotiations for a possible U.S.-Mexico FTA, nor a year later when negotiations were formally launched, nor in December 1992 when President Bush signed the NAFTA. The Clinton Administration expected that the NAFTA would provide greater employment opportunities in all three countries, but was, and continues to be, much more interested in employment in the United States than employment in Mexico. Since the NAFTA entered into force, employment in the United States has grown by over 15 million new jobs. The unemployment rate has dropped to 4.2 percent, the lowest level in three decades. Wages have risen by about 6 percent in real terms, after a long period of stagnation. U.S. employment in the motor vehicle and equipment sector increased by over 14 percent from December 1993 to December 1998.[1]

In the United States, General Motors is ranked second on the Fortune 500 list in terms of employment in the United States in 1998, with 594,000 employees, followed by the Ford Motor Company with 345,175 employees. GM is ranked as first on the Fortune Magazine Fortune 500 list in terms of revenue, and is also ranked first in revenue on the Global 500 list. As a consequence, while it would be hardly surprising if GM were Mexico's largest private sector employer, we have been unable to confirm whether this is in fact the situation.

According to the Office of Automotive Affairs in the Department of Commerce, in 1998, the U.S. motor vehicle industry (SIC 3711, Motor Vehicles and Passenger Car Bodies), employed an average of 254,100 production workers per month, a decline of almost 6 percent from the previous year. These numbers are distorted by the GM strike, which reduced average employment from the previous July's 256,800 average to 178,000. Without this anomaly, 1998 average employment would have been higher than reported. Compensation in the auto industry is among the highest in the United States. Assembly workers garnered average hourly earnings (in addition to a benefits package) of $21.81 in 1998, compared with the national average for all manufacturing industries of $13.49. In 1997 they earned $21.63, compared with the national average of $13.17. U.S. assembly workers produced an average of 47 cars and trucks of all weight classes (12 million total) per employee in 1998, compared with 45 vehicles in 1997. During 1978, the all-time peak production year, U.S. vehicle output was 12.899 million units. The 349,100 hourly employees each produced an average of 37 vehicles that year.

Question. When an auto assembly plant moves to Mexico, parts manufacturers are forced to move down there as well. Is this happening to many industries? Was this contemplated?

Answer. The NAFTA in fact is changing a combination of Mexican laws (including quotas, trade balancing and local content requirements) which had forced firms to move to Mexico in order to sell their products there. The build-up of the automotive industry in Mexico can be traced to these rules, which had been in place for three decades prior to the NAFTA. With the NAFTA, neither assembly plants nor parts manufacturers are forced by unfair laws to locate in Mexico, and so may locate plants wherever it makes the most sense.

Although imports of light vehicles from Mexico have grown significantly in the last few years, it would be inaccurate to deduce that this must be because automotive assembly plants and parts manufacturers are flocking to Mexico. The United States remains the leading location for automotive investment, according to a study reported in the Fourth Annual Report to Congress on the Impact of the NAFTA on Automotive Exports (July 1998). From July 1995 through June 1997, markets receiving the most automotive investment in rank order were the United States, Brazil, India and China. Canada ranked ninth and Mexico tenth. U.S. and foreign-owned automotive companies continue to invest in both new and renewed facilities in the United States.

According to the same report, international competition and the drive to create global sourcing are affecting parts suppliers in Mexico. Small parts suppliers in Mexico also are having difficulty accessing credit at reasonable rates whereas larger suppliers have access to more favorable credit in the international marketplace. Many vehicle manufacturers tend to favor in-house and long-term suppliers rather

[1] Bureau of Labor Statistics, National Employment, Hours and Earning, Series ID EES31371001, SIC Code 371. Raw figures are 862 thousand for 12/93; 990 thousand for 12/98.

than looking to smaller, less developed firms. These trends, which are global, will increase competition for smaller independent Mexican parts suppliers.

Mexico is attempting to make itself a more attractive investment location as it continues to actively pursue preferential trade agreements throughout the Western Hemisphere and with the European Community. As the number of preferential trade agreements negotiated by Mexico increase, the attractiveness of Mexico as a manufacturing location will also increase, all other factors remaining unchanged. For instance, Mexico is now a major manufacturing location for VW's global operations. VW's Mexican operation undertakes intra-company trade with its facilities in Brazil, Argentina and Europe, and has access to the U.S. and Canadian markets. Mexico can also offer a low labor cost to firms, but this advantage is overwhelmed by the high costs of transportation, power, and an inefficient infrastructure. The United States is considered an ideal production location because of the availability of raw materials, the productivity of its labor force and other factors, however, these advantages may be affected by tariff barriers. For example, Mexican exports of automotive products enter Chile with no tariff while exports from the United States face an 11 percent tariff.

As for other industries, firms are not moving en masse to Mexico. As I pointed out in my written statement, the stock of U.S. direct investment abroad, on a historical cost basis, reached only $25 billion in Mexico in 1997, which is less than 3 percent of the worldwide total U.S. investment abroad of $860.7 billion. The U.S. is not shifting massive amounts of capital to Mexico, and the jobs that go with them. Instead, the facts show U.S. and foreign firms are increasing capital investments in all three NAFTA countries. The stock of foreign direct investment in the United States reached $681.7 billion in 1997, while U.S. firms poured over $1.3 trillion of non-residential fixed investment into the United States.

Question. Did the proponents of NAFTA think that only low-skilled apparel jobs would move South of the border or was it foreseen that fiber, spinning, weaving and finishing plants would necessarily move South to stay competitive in the U.S. market? What do you say about the prospects of textile and apparel companies that stay in the U.S.?

Answer. The goal of the NAFTA is to create opportunities for trade that will lead to new and better jobs in all three countries. The Administration's record on the NAFTA in its first five years demonstrates its success in this area. The NAFTA's textile provisions provide new market opportunities for the U.S. textile and apparel industries, and counterbalance the labor cost advantage held by Far East suppliers of apparel. As a result, U.S. exports of textiles and apparel to Mexico rose by 182 percent between 1993 and 1998, while exports to Canada grew by 72 percent over the same period.

In 1993, the top suppliers of textiles and apparel products to the United States were China, Hong Kong, Taiwan and Korea. Together these countries accounted for 39 percent of total U.S. imports of textiles and apparel products, while Canada and Mexico accounted for 7 percent. By 1998, the market share of Canada and Mexico grew to 17 percent, while the share of those four Far East suppliers was 12 percentage points below their 1993 share. The benefit to the U.S. of this shift in the growth of imports is that almost 60 percent of the value of U.S. textile and apparel imports from Mexico in 1998 were comprised of U.S. content, for example, formed and cut fabric, while the U.S. content of imports from the Far East is negligible.

It is not surprising that the rapidly growing Mexican apparel industry is attracting investment from suppliers of raw materials such as fabric, including from U.S. companies. However, we believe the domestic textile industry is, and will continue to be stronger because of the opportunities to sell to our NAFTA partners, than it would have been without NAFTA. Moreover, U.S. producers have increased their focus on home furnishings and industrial products which are less susceptible to competition from sources with low-cost labor.

Question. You quoted Chuck Hayes of Guilford as saying NAFTA would be the "Renaissance" of the textile industry. Last year his company's stock was selling for $30, today you can buy it for $9. He is not the only one in trouble. Of the 82 textile stocks followed by The Apparel Strategist, 61 are below their price at the end of 1997. 22 of these stocks are down over 50%, and 11 have lost more than two-thirds of their value. Please explain again how NAFTA will help the 1.4 million Americans currently working in the domestic textile industry?

Answer. The industry attributes its current problems to the Asia economic crisis. In his March 23, 1999 testimony before the House Ways and Means Subcommittee on Trade, the American Textile Manufacturers Institute's Executive Vice President Carlos Moore noted that "In the home market, the U.S. textile industry has . . . been confronted by a wave of low-price Asian imports. Overall prices for Asian fabrics have declined by ten percent since the Asian currency crisis began while yarn prices have fallen by 23 percent."

Without NAFTA, the effects of the Asian crisis on the U.S. textile industry would have been even worse. Mexican plants purchase large quantities of U.S. components, allowing U.S. companies to increase exports, enhance efficiencies, and maintain jobs in the United States. In particular, U.S. employment levels for more-skilled, higher-paying jobs such as cutting, computer-aided design and manufacturing, marketing and product development, have remained relatively stable.

Question. Most of our exports to Mexico are capital and intermediate goods that go into factories where the products are ultimately exported back to the United States. Very little of our U.S. exports are "consumed" in Mexico by consumers. Please give me a time table of when you expect a consumption-oriented middle class will be created, how big it will be and what it is that will then be made in the United States to sell them?

Answer. The NAFTA is fostering increased economic opportunity. The composition of Mexico's class structure ultimately depends on the Government of Mexico's social and economic policies and how the Mexican private sector reacts to those policies. International trade, while important, plays a part in this, but as in the U.S., there are other more important factors impacting the Mexican economy and the makeup of a "consumption-oriented middle class." Macroeconomic policies and technological change, for example, are two bigger factors. For that reason, creating a time table is not possible.

It is important to keep several points in mind on this topic. First, capital goods by definition are accumulated goods devoted to the production of other goods, e.g., industrial equipment and supplies. Mexican purchases of these goods generally do not presuppose the return of those goods to the United States, but instead presumptively are for the use of those goods in Mexico to produce other goods. The finished goods produced, in turn, may be of Mexican origin, U.S. origin, mixed origin, or non-NAFTA origin, and ultimately may be sold in Mexico, the United States, or another country. Mexico is not just a way-station for U.S. goods. In fact, the NAFTA eliminates performance requirements and other policies in Mexico that precluded Mexican domestic consumption of certain imports from the United States.

Second, most of what we export to Mexico are not ultimately exported back to the United States. All of our services exports, for example, are "used" in Mexico. Our leading single export to Mexico is electrical machinery, but goods for use or consumption account for over 40 percent of the total amount of Mexico's merchandise imports.

Third, a consumption-oriented middle class already exists in Mexico. Its size and consumption patterns are not necessarily keys to our export success, since the Mexican "middle class" is not the only buyer of American goods and services. Mexico's middle class was hard hit by the 1994–95 peso crisis, but except for a slight decrease in 1995, our exports of goods to Mexico have increased every year with the NAFTA, growing 90 percent over the first five years of the NAFTA by $37 billion, to reach $79 billion.

Question. As you know the number of Mexicans that are considered poor has increased to almost two-thirds of the population since NAFTA. Real wages are lower today than they were 10 years ago. How do you account for this and was it contemplated in the planning for the NAFTA?

Answer. Poverty in Mexico exists for reasons which are unrelated to the NAFTA. Decades of failed economic policies, including nationalization, land reform, forced industrialization by following the import-substitution economic model and mismanagement of exchange rate policies and other macroeconomic policies, have all exacerbated poverty levels in Mexico. Although reliable data is scarce, particularly current data, there is no doubt that Mexico experienced an increase in unemployment, and a sharp drop in real wages, due to the sudden fall in output precipitated by the 1994–95 peso crisis. However, the NAFTA contributed to Mexico's speedy recovery from its crisis, by forcing Mexico to stay the course of market-based reforms. In fact, employment growth in Mexico is up 22 percent in Mexico over the last 5 years, an increase of 2.2 million jobs. Furthermore, wages are higher in export supported jobs in Mexico when compared to wages in those industries that produce for the domestic market, and the recent growth in Mexican exports has generated more of these higher wage jobs.

Although there was no way to forecast the sudden drop in real wages caused by Mexico's 1994–95 crisis, one of the considerations in preparing for the NAFTA was the fact that Mexico is a developing country. By removing barriers to trade, the NAFTA encourages increased import and export activity, which creates opportunities for economic development, and new jobs, in all three NAFTA countries. In fact, employment growth has occurred in all three countries since the NAFTA.

You should also be aware that the United States is working with Mexico (as well as other countries), through multilateral organizations such as the United Nations Development Program and the World Bank. The keys to dealing effectively with issues of poverty and inequality are to deal with the basics—growth and global competitiveness to provide jobs, education and health to enhance the capacity of the poorest and marginal groups.

Question. Illegal immigration and the flow of illegal narcotics coming into the U.S. through Mexico are growing. They have grown each year since NAFTA was passed. Why is it that the Administration's forecasters had it all wrong when they said that NAFTA would actually ameliorate some of these intractable problems?

Answer. In 1993, the Administration stated the NAFTA will gradually ease many of the pressures in Mexico that contribute to illegal immigration across our border. Specifically, a combination of domestic reforms and NAFTA-related growth in Mexico tends to keep more Mexicans at home, and it is likely to increase the real wages of low-skilled American workers. That logic is still at work today, and the available data indicate the strategy is effective. In the past few years, Mexico's economy has grown, as has its employment levels which are up 22 percent, or 2.2 million jobs, since NAFTA's enactment, and, not coincidentally, real wages in the United States have risen by about 6 percent. Without the NAFTA, it is unlikely that Mexico's economy would have rebounded so quickly from the 1994–95 peso crisis, and Mexico may have chosen to forego market-based economic reforms, which could have worsened one of the principal factors inducing illegal immigration, namely, the scarcity of employment opportunities in Mexico.

Illegal immigration flows should not be attributed to the passage of the NAFTA. According to the latest annual INS report, about 5.0 million undocumented immigrants were residing in the United States in October 1996. The population was estimated to be growing by about 275,000 each year, which is about 25,000 lower than the annual level of growth estimated by the INS in 1994. The undocumented population grows at varying levels from year to year, but the data available to make these estimates do not permit the derivation of annual figures to measure year-to-year changes. However, the similar levels of growth for the 1988–92 and 1992–96 periods, 281,000 and 275,000, respectively, suggest that the overall level of growth has been fairly constant over the past decade.

As for the flow of illegal drugs, the Administration stated in 1993 that NAFTA will reduce tariffs, not customs controls on the border. The Administration also stated that by promoting U.S.-Mexican cooperation, the NAFTA can foster a positive atmosphere for further bilateral efforts to fight drugs.

Today, ten million trucks and cargo containers and ninety thousand merchant and passenger ships enter the United States annually, carrying some four hundred million metric tons of cargo. Amid this voluminous trade, drug traffickers seek to hide approximately three-hundred metric tons of cocaine, thirteen metric tons of heroin, vast quantities of marijuana, and smaller amounts of other illegal substances. The U.S. supply-reduction strategy seeks to: (1) reduce illegal drug cultivation and production; (2) destroy drug-trafficking organizations; (3) interdict drug shipments; (4) encourage international cooperation; and (5) safeguard democracy and human rights. The United States continues to focus international drug-control efforts on source countries, where international trafficking organizations are most concentrated, detectable, and vulnerable to effective law-enforcement action.

A strong partnership with Mexico is critical to controlling the flow of illicit drugs into the United States. The U.S. has certified Mexico as fully cooperating in this effort based on an unprecedented level of cooperation on counter-narcotics and Mexico's own initiatives in fighting drug trafficking. In 1998, Mexico was second only to Colombia in combined total drug crop (opium and marijuana) eradication, after leading the world in eradication in 1995–97. It seized 22.6 metric tons of cocaine, 121 kilos of heroin, 1,062 metric tons of marijuana, and 96 kilos of methamphetamine. With respect to all but cocaine, seizure levels were up over 1997.

The United States and Mexico established a High-Level Contact Group (HLCG) in 1996 on narcotics control to explore joint solutions to the shared drug threat, to coordinate the full range of narcotics issues and to promote closer law enforcement coordination. President Zedillo formalized his government's commitment to counter-narcotics cooperation with the United States by signing the "Declaration of the Mexican-U.S. Alliance Against Drugs" with President Clinton in May 1997. The binational alliance worked throughout 1997 to produce the "U.S.-Mexico Binational Drug Strategy," a document released in 1999, which contains 16 alliance objectives, ranging from drug shipment interdiction to extradition of drug traffickers. Following the controversy in 1998 over a U.S. money laundering investigation of Mexican banks and individuals (Operation Casablanca), the two governments agreed on procedures to improve communication and coordination in cases of sensitive law enforcement investigations. The Administration's drug control strategy is effective. In 1997, there were 13.9 million current users of any illicit drug in the total household population aged 12 and older, down from the peak year of 1979, when 25 million (or 14.1 percent of the population) abused illegal drugs. The 13.9 million number represents 6.4 percent of the total population and is statistically unchanged from 1996. Mexico's accomplishments last year included the arrest and sentencing of important traffickers; implementation of anti-money laundering laws which increase penalties; major efforts to combat drug-related corruption; extradition of narcotics traffickers to the United States; and establishment of an anti-drug media campaign aimed at preventing young people from turning to drugs.

Our binational drug strategy and the supporting performance measure of effectiveness system signed by our two presidents in Merida earlier this year will improve accountability of our joint anti-drug effort. A long-term commitment by Mexico's government to achieve concrete results will be needed to disrupt major trafficking organizations and to reduce the amount of drugs that enter Mexico and the United States. This commitment was reiterated during President Clinton's recent visit to Merida.

Question. Has Mexico's foreign debt increased or diminished over the last five years?

Answer. Calculated as a percentage of current account revenues, Mexico's total gross external debt has been decreasing every year from 1994 through 1997, according to the Bank of Mexico. Public sector debt (as a percent of current account revenues) rose in 1995 against 1994, but has been falling ever since. External debt service as a percentage of exports of goods and non-factor services fell from an average of 17.8 percent for 1993 to an estimated 13.0 percent in 1998, by far the lowest among major Latin American countries.

Likewise, as a percent of GDP, total external debt rose from 32 percent in 1993 to 59.2 percent in 1995, but has remained much lower in recent years (falling to 49.8 percent in 1996, 38.2 percent in 1997, and 39 percent of GDP in 1998). This places Mexico's external-debt-to-GDP ratio only slightly higher than the average ratio of 35 percent of GDP for Latin America.

Mexico's external debt has increased in absolute terms over the last five years, but recent trends indicate a decrease from the record high level of external debt reached in 1996. In 1996, Mexico's total debt outstanding and disbursed, according to the World Bank, reached U.S.$157.1 billion. In 1997, that amount had fallen to $150.3 billion. Debt servicing fell from $40.7 billion in 1996 to $37.1 billion in 1997. The vast bulk of Mexico's external debt in 1997 consisted of private debt, totaling $89.8 billion. Short-term debt followed at $28.5 billion, IBRD lending was $11.3 billion, IMF lending was $9 billion, and other multilateral lending totaled $5.1 billion.

Mexico's manageable debt burden is helped by close trade and investment ties with the United States, which absorbed about 80 percent of Mexico's exports in 1998. NAFTA has helped this encouraging trend in the overall debt picture by assuring private lenders of continuing market reforms in Mexico. It has served as a positive force as part of a larger strategy to integrate Mexico into the global economy and generate growth. In 1999, the Mexican government and private analysts expect foreign direct investment, much of which will come from the United States, to cover up to 75 percent of Mexico's current account deficit.

Question. Probably no Third World country has been accorded more of the benefits of the global economy (i.e., massive foreign direct investment, IMF bailouts, access, and proximity to the richest market in the world, etc.) but still Mexico has a growing problem with poverty and unemployment. What does that say for the prospects for the rest of the underdeveloped countries of our hemisphere? Can the U.S. market be the engine for everyone?

Answer. There is no doubt that reducing poverty and creating jobs for its growing population are major challenges facing Mexico and many other countries in the Western Hemisphere. The question for the United States is what policies we should encourage in the region that will best assure these problems are addressed.

This Administration, and in fact the last several Administrations, have made the case that strengthening democratic institutions and reforming the economy to open markets are the best ways to ensure long term growth and development.

There are a number of indicators that suggest the policies Mexico initiated in 1986 to open markets and privatize, have begun to bear fruit. For example, according to the World Bank, Mexico's average annual per capita GNP growth was 0.9 percent from 1976 to 1986 and 0.6 percent from 1987 to 1997. However, for 1996 the growth rate was 4.0 percent, 6.2 percent for 1997 and projected at 2.9 percent annually from 1998 through 2002. Regarding job creation, the OECD estimates Mexico has created almost 2.7 million permanent new jobs between August 1995 and the end of 1998. OECD data also shows Mexico's purchasing power recovering after the peso crisis in 1994 and 1995, from a level of 46 in 1996 to 56 for 1998.

It is also important to note that this solid economic performance was occurring during the Asian financial crisis. While Mexico has not been immune to its impact, its economy emerged largely unscathed, in substantial part due to the sound economic policies it has put into place. Thus, we continue to believe that an open, democratic economic model is appropriate for the hemisphere.

Question. I understand that in Canada it will be considered a criminal act if foreign owned magazines include advertisements aimed at Canadian consumers, and that the Canadian government is justifying this under the guise of protecting Canadian culture. What is USTR planning to do about this?

- Why has Canada refused to adhere to the 1997 World Trade Organization decision requiring Canada to end this practice? What is USTR going to do about it?

Answer. In October 1998, Canada introduced Bill C–55, which simply accomplishes the same result as the measures which were found to violate the WTO in the 1997 panel decision on periodicals. U.S. and other foreign-produced split run magazines would be prohibited from competing in the Canadian market. Bill C–55 would prohibit U.S. and other non-Canadian publishing companies, on pain of criminal fines, from using the magazines they produce to advertise directly to Canadian readers.

Among the four measures the WTO condemned was a confiscatory 80% tax imposed by the Canadian Government on imported magazines carrying this type of advertising. The tax put U.S. and other imported magazines at a significant commercial disadvantage by comparison to Canadian-produced magazines. Having finally agreed to eliminate the tax on these advertisements, the Canadian Government is now proposing to ban these advertisements altogether.

Bill C–55 has passed the Canadian House and is before its Senate this month. Since January 1999, we have sought to negotiate an agreement to address fully U.S. concerns before the bill is enacted. We have made good progress in the last month but a few key issues remain unresolved; our deadline for resolving this matter is mid-May. While a negotiated solution is the preferred outcome, the Administration has made it clear that we will protect U.S. interests and withdraw trade benefits from Canada if an agreement is not reached.