

USA NAFTA

North American
Free Trade
Agreement

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TO: MEMBERS OF CONGRESS
FROM: USA*NAFTA
DATE: AUGUST 4, 1993
SUBJECT: NAFTA: FOCUS ON THE FACTS

As you prepare to return to your home districts/states for the August recess, we wanted you to have a copy of the attached document, "NAFTA Myths and Realities: A Focus on the Facts".

You will no doubt encounter a great deal of anti-NAFTA sentiment while you are home, a majority of which will be based on spurious "truths" about the Agreement that have been spread by NAFTA's opponents. We offer this document to you as a means of setting the record straight as regards NAFTA and its benefits to the United States.

If you have any questions about this material, please do not hesitate to call USA*NAFTA Chairman Sandra Masur at 202-857-3463.

Thank you very much for your attention.

Exports.
Better Jobs.
Better Wages.

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July 28, 1993

NAFTA Myths and Realities: Focus on the Facts

Opponents of NAFTA ignore key facts that underscore why the NAFTA is an excellent agreement that will benefit the U.S. economy, U.S. workers, and the environment.

- ★ **NAFTA will create over 200,000 new, higher paying U.S. jobs and protect 700,000 existing jobs that are related to exports to Mexico:** Without NAFTA, these future job increases will be lost, and a deteriorated economic and political relationship with Mexico may cost the U.S. economy hundreds of thousands of existing U.S. jobs.
- ★ **NAFTA will create a level playing field for U.S. exporters:** NAFTA will lock in Mexico's recent reduction of trade barriers and eliminate all remaining Mexican tariffs (which are 2½ times higher on average than their U.S. counterparts), as well as most other barriers to U.S. products made by U.S. workers.
- ★ **NAFTA will help U.S. companies and workers compete more effectively against foreign competitors:** NAFTA will create the world's biggest market and provide preferential access for U.S. products to Mexico's growing market of 90 million consumers.
- ★ **NAFTA will provide better environmental protection:** NAFTA will create the economic resources and political atmosphere to improve environmental protection in Mexico and the U.S.-Mexico border region.
- ★ **NAFTA will harness the changing global economy for the benefit of U.S. workers and demonstrate effective U.S. leadership to meet the requirements of the post-Cold War world:** As President Clinton stated this year, "In the face of all the pressures to do the reverse, we must compete, not retreat."

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Myths and Facts about NAFTA and Jobs

Myth #1: NAFTA will cause U.S. jobs to be displaced by permitting the U.S. market to be flooded with Mexican imports produced with cheap Mexican labor.

Fact #1: The United States will gain jobs with NAFTA.

- Freer trade with Mexico already has created U.S. jobs by spurring sales in Mexico of U.S. goods and services made by U.S. workers. From 1986 to 1992, U.S. exports to Mexico increased by 227 percent, over twice as much as imports from Mexico.
- Congress's Budget Office found that under NAFTA, "U.S. workers [will benefit] from a net increase in jobs and income."
- The U.S. International Trade Commission recently conducted a review of economic studies on the NAFTA and concluded that the leading studies "all find that aggregate U.S. employment rises as a result of NAFTA."
- For example, Procter & Gamble Company of Cincinnati, Ohio, has seen its exports to Mexico grow from virtually nothing in 1986 to \$100 million in 1992. With the implementation of NAFTA, Procter & Gamble expects an additional doubling of its exports to Mexico to \$200 million. These exports will support between 1,500-2,000 U.S. jobs.

Myth #2: NAFTA may cause U.S. job gains in the long run, but it will cause severe job losses in the short run.

Fact #2: The U.S. economy will gain jobs immediately.

- Increased exports to Mexico will result in immediate job gains. Overall, the United States will gain 200,000 jobs by the end of 1995.
- Any short-run job loss in import sensitive industries will be minimized by extended phase out periods for U.S. restrictions on Mexican goods. In addition, the Administration is committed to

an effective worker retraining and adjustment assistance program to affect any job losses.

- Job gains have already begun as companies increase production in anticipation of NAFTA. For example, General Motors recently announced that it is shifting production of the Chevrolet Cavalier from Mexico to Lansing, Michigan. This move will create 800 to 1,000 U.S. jobs.

Myth #3: NAFTA will cause U.S. companies to move jobs to Mexico to take advantage of low wage Mexican labor.

Fact #3: NAFTA will not cause U.S. companies to move to Mexico because of low wages.

- There is nothing to stop U.S. companies from moving to Mexico now, without NAFTA. Mexican wages already are low and the U.S. market is already open to Mexican imports with an average tariff of 3.9 percent.
- U.S. companies generally do not do move to Mexico because wages are not the driving force in the location of jobs. If they were, Haiti and Bangladesh would be economic superpowers.
- U.S. workers are the most productive workers in the world, with a productivity as much as five times higher than Mexican workers. U.S. workers also enjoy the advantages of the U.S. economy's superior infrastructure, closer proximity to markets, and better access to quality inputs.
- For these reasons, Congress's Budget Office concluded, "contrary to commonly expressed concerns . . . Americans should not fear that the NAFTA would cause a wholesale relocation of U.S. manufacturing plants and jobs to Mexico to take advantage of the lower average wage."
- As Secretary of Labor Robert Reich stated, "U.S. workers have little to fear from NAFTA, and much to hope for."
- For example, Quality Coils of Connecticut is a producer of electromagnetic coils for refrigeration and other equipment. In 1989, it closed its Stonington, Connecticut factory and moved production to Juarez, Mexico, because of low Mexican wages.

Quality Coils found, however, that Mexico's lower nominal wages did not match the productivity of U.S. workers. So this year, Quality Coils moved its facility back to Stonington. Quality Coil's President stated, "what we learned down in Mexico is that the up-front wages might look a lot less expensive[, but] that the Connecticut worker is far more productive."

Myth #4: NAFTA will reduce U.S. wages by forcing U.S. workers to compete with Mexican workers who are paid only 50 cents per hour.

Fact #4: *NAFTA will raise U.S. wages by spurring exports.*

- Mexican wages are not as low as NAFTA opponents say; the average Mexican manufacturing compensation in 1991 was approximately \$26 per day. The actual difference between U.S. and Mexican wages is offset by U.S. workers' higher productivity.
- NAFTA will create export-related jobs; export-related jobs pay 17 percent more than the average U.S. wage.
- Free trade between industrialized and developing countries historically raised wages in the industrialized country; for example, Germany was able to nearly double its average wage between 1985 and 1989, while Spain and Portugal were integrated into the European Community.

Myth #5: NAFTA's investment provisions will induce U.S. companies to divert investment and jobs from the United States to Mexico.

Fact #5: *Far from diverting U.S. investment, NAFTA's investment provisions remove current incentives to move jobs to Mexico.*

- Congress's Budget Office found that U.S. investment in Mexico would not harm the U.S. economy because "[t]he yearly amounts that might come from the United States are very small relative to U.S. capital markets, and the United States would also be in an enhanced position to attract capital from the rest of the world." Moreover, the economic studies conducted by Congress's Budget

Office found that investment in Mexico would "appreciate the Mexican peso, and push Mexico's trade balance into deficit for some time. . . . This scenario [would benefit] the United States by increasing exports to Mexico."

- NAFTA will remove Mexican tariffs -- which are 2½ times higher on average than their U.S. counterparts -- and import licensing requirements and other tough nontariff barriers that now require U.S. companies to have factories in Mexico to sell in Mexico.
- NAFTA will remove Mexican requirements that U.S. companies in Mexico buy Mexican components instead of components made in the U.S. by U.S. workers.
- For example, McIlhenny Company of Avery Island, Louisiana, produces and distributes Tabasco brand hot sauce. In anticipation of lower trade barriers under NAFTA, McIlhenny has stopped making Tabasco sauce in Mexico and consolidated production in Louisiana, creating more U.S. jobs.

Myth #6: NAFTA will allow non-North American countries to use Mexico as an "export platform" to gain duty free entry to the United States.

Fact #6: *NAFTA prevents Mexico from becoming an "export platform."*

- NAFTA contains strict, comprehensive rules of origin, which require goods to be made in North America before they receive favored treatment under NAFTA. These rules fill nearly 200 pages of the NAFTA text and are stricter than those in the 1988 US-Canada Free Trade Agreement.

Myth #7: NAFTA does not protect workers in import-sensitive industries.

Fact #7: *NAFTA protects workers in import-sensitive industries in four important ways.*

- NAFTA's strict rules of origin will prevent Mexico from becoming an export platform for non-NAFTA countries.

- NAFTA contains extended transition periods for U.S. tariffs and non-tariff barriers to imports that will give import-sensitive industries and workers time to adjust to a more competitive environment.
- NAFTA contains specific measures designed to prevent surges of imports during the transition period, which permit pre-NAFTA tariffs to snap back into place if a surge of imports harms U.S. industries and workers.
- NAFTA is helping create a political dynamic that will lead to improved worker retraining and adjustment assistance programs that will extend beyond NAFTA to worker dislocation caused by defense conversion, non-NAFTA related trade impacts, and normal changes in a market economy.

Myth #8: The U.S. trade surplus with Mexico is a "mirage" because 85 percent of current U.S. exports to Mexico are capital goods being used to build factories that will flood U.S. markets with their production.

Fact #8: *With NAFTA, the U.S. trade surplus with Mexico will continue and will create more U.S. jobs.*

- Only 33 percent of U.S. exports to Mexico are capital goods, which is a decrease from 40 percent in 1987. By comparison, capital goods comprise 40 percent of U.S. exports to all developing countries and 39 percent of total U.S. exports to the world.
- Exports of capital goods are good for the U.S. economy because they support high wage jobs; other leading economies, such as Germany and Japan, also export large amounts of capital goods.

Myth #9: U.S. exports to Mexico do not benefit the U.S. economy because they are components that are shipped back to the United States as finished products; Mexicans do not buy U.S. consumer goods.

Fact #9: *Consumer goods are among the leading U.S. exports to Mexico.*

- Consumer goods are the fastest growing segment of U.S. exports to Mexico; U.S. exports of consumer goods to Mexico have quadrupled in five years, from \$1.1 billion in 1987 to \$4.4 billion in 1992.
- An estimated 83 percent of the growth in U.S. exports to Mexico in the last five years has been for Mexican consumption, not for re-export.
- U.S. consumer goods exports have grown at a 31 percent annual rate for the past five years, as compared to the rest of the world at 17 percent, Japan at 15 percent, and the EC at 16 percent.
- Last year, the average Mexican spent more on consumer goods made by U.S. workers than the average Japanese, even though the average Japanese earns five times more than the average Mexican.

Myth #10: NAFTA will cost U.S. jobs by eliminating U.S. "Buy American" laws.

Fact #10: *NAFTA will create U.S. jobs by opening up the Mexican government procurement sector.*

- First, although NAFTA will affect U.S. federal procurement laws (in regard to Mexico and Canada, not other countries), the United States has more to gain by opening up Mexico's government procurement because:
 - * Despite privatizations in recent years, Mexico remains an economy with a higher proportion of state-owned businesses than the U.S.
 - * Mexican government procurement practices are more restrictive than their U.S. counterparts.

- Second, NAFTA will not affect state or local government procurement laws because state and local entities are not covered by the agreement.

Myth #11: NAFTA will allow low-wage Mexican workers to gain "temporary entry" into the United States to break strikes.

Fact #11: NAFTA expressly prevents entry of workers to break strikes.

- The NAFTA states that workers may be denied temporary entry into the United States where the entry "might affect adversely: (a) the settlement of any labor dispute that is in progress at the place or intended place of employment; or (b) the employment of any person who is involved in such dispute."

Myth #12: Economic studies predicting gains from NAFTA are flawed because they assume full employment and unchanged investment patterns.

Fact #12: Economic studies predicting jobs gains from NAFTA are rigorous and highly respected.

- Leading studies of the NAFTA by the nonpartisan Institute for International Economics and others consider both changes in employment rates and investment patterns and conclude that the U.S. will increase exports and gain jobs.
- Although studies relying on "computerized general equilibrium" models assume full employment, such studies on the NAFTA projected that wage rates would increase, indicating an increase in demand for U.S. workers.

Myths and Facts about NAFTA and Citizen Safety

Myth #13: NAFTA will override U.S. financial regulations which assure the stability of the banking system and that banks contribute to communities where they are based.

Fact #13: NAFTA preserves U.S. financial regulations.

- The NAFTA specifically provides that each country may maintain measures and adopt new measures for "prudential reasons." Prudential reasons include, but are not limited to "the protection of investors and depositors," "The maintenance of safety, soundness, integrity or financial responsibility of financial institutions...", and "ensuring the integrity and stability of a Party's financial system."
- NAFTA also does not overturn U.S. financial regulations, such as the Community Reinvestment Act, which are designed to assure that banks contribute to the communities in which they are based.

Myth #14: NAFTA will eliminate border controls that will enable drugs to flow more freely into the United States from Mexico.

Fact #14: NAFTA is essential to improve efforts against drug smuggling.

- NAFTA does not prevent U.S. drug enforcement officials from searching for drug smugglers on the U.S.-Mexico border.
- NAFTA will facilitate the improving level of cooperation between Mexican and U.S. law enforcement authorities to stem the trade in narcotics.
- Chairman Dan Glickman of the House of Representatives Select Committee on Intelligence recently stated, "a failure to ratify NAFTA will so sour relationships between Mexico and the United States that it will . . . have an impact on good, solid law enforcement relating to the importation of illegal drugs and illegal narcotics."

Myth #15: NAFTA will permit Mexican trucks to have full access to U.S. roads without having to meet U.S. safety standards.

Fact #15: NAFTA does not undermine U.S. safety standards.

- Within three years of the agreement, Mexican trucks and drivers will have to meet applicable standards on emissions, environmental pollution, safety inspections, maintenance, repair, brakes, securement of cargo, and driving credentials. However, Mexican trucks will not have full access to U.S. roads for six years.

Myth #16: NAFTA exposes federal, state, and local consumer and environmental laws to challenge as trade barriers.

Fact #16: NAFTA protects consumer and environmental laws.

- NAFTA specifically confirms the right of each country, as well as its states and localities, to maintain its own level of health, consumer safety, and environmental standards and to increase those standards over time, so long as the purpose of the law is to protect consumers and the environment, not to provide an excuse to keep out Mexican products.

Myth #17: NAFTA requires strict confidentiality in all dispute resolution proceedings, which will enable environmental and consumer standards set by state and national legislatures to be second guessed in secret.

Fact #17: The NAFTA dispute resolution process does not enable panels to "second guess" environmental and consumer laws.

- Under NAFTA, environmental and consumer laws are not open to challenge unless they are used as an excuse to keep Mexican and Canadian products out of the United States, instead of environmental preservation or consumer safety.

- Officials of affected states will be able to participate in dispute resolution proceedings as they consistently have done under the U.S.-Canada Free Trade Agreement.

Myth #18: NAFTA will permit food stuffs to be imported from Mexico with residues from pesticides (such as DDT) that are outlawed in the United States.

Fact #18: NAFTA will not allow dangerous foods to enter the United States.

- NAFTA allows the United States to prohibit entry of goods that do not meet its health, safety, and environmental standards.
- DDT is not permitted to be used in farming in Mexico. It is used only by the government to fight mosquitos carrying malaria in southern Mexico; it is not available to the public.
- A GAO study found that Mexico's overall system of controlling pesticides is very similar to that of the United States.
- As Mark Silbergeld, director of the Washington office of Consumers Union (public of Consumer Reports magazine) stated, "Our tough laws simply will not be threatened by [NAFTA]."

Myths and Facts about NAFTA and the Environment

Myth #19: NAFTA will encourage U.S. companies to invest in Mexico to avoid strict environmental regulation.

Fact #19: NAFTA helps assure that any investment will be environmentally friendly.

- In NAFTA, each country agrees -- in a provision unprecedented in an international agreement -- not to use weak enforcement of its environmental laws to lure investment from other countries.
- Mexico already has environmental protection laws comparable to U.S. laws, and Mexican enforcement of these laws is improving

rapidly. For example, Mexico has tripled its number of environmental inspectors since 1989.

- Congress's Budget Office found that "differences in pollution control costs should not cause widespread movement of U.S. manufacturing facilities, mainly because such costs are a small portion of most firms' total costs."
- As Kathryn Fuller, President of the World Wildlife Fund, recently stated, NAFTA, with an environmental side agreement, "can provide the basis for long-term environmental improvements throughout North America."

Myth #20: NAFTA will harm the North American environment.

Fact #20: NAFTA improves environmental protection; if you are for a better environment, you have to be for NAFTA.

- NAFTA contains specific measures that will improve environmental protection.
 - * NAFTA commits each country to the principle of sustainable development.
 - * NAFTA provides for certain international environmental agreements to take precedence over NAFTA if there are inconsistencies.
 - * NAFTA expressly permits each country and its states and localities to choose and enforce its own environmental standards, even if they are stricter than international standards.
 - * NAFTA commits each country to seek to "harmonize upwards" sanitary, phytosanitary, and environmental standards.
- Congress's Budget Office noted, "over the long run, the quality of the environment in Mexico should benefit from economic growth and a rising standard of living" due to NAFTA.

- Many environmentalists have recognized that NAFTA is the "greenest" trade agreement ever.
- With NAFTA, a supplemental agreement on the environment is being negotiated with Mexico and Canada that will further improve environmental protection and enforcement in North America.

Myth #21: NAFTA would overturn U.S. laws protecting the environment beyond U.S. borders, such as the Endangered Species Act, the Clean Air Act, and the Marine Mammal Protection Act of 1972.

Fact #21: NAFTA does not overturn any U.S. environmental laws and provides for protection of endangered species and air quality.

- NAFTA does not overturn any U.S. law and certainly not any U.S. environmental laws.
- Moreover, NAFTA specifically provides that certain international environmental agreements, which protect endangered species and air quality, will govern in place of NAFTA in the event of any conflict. These include international agreements protecting endangered species, the ozone layer, and other environmental agreements among the United States, Canada and Mexico.
- Mexico has agreed with the United States not to engage in conduct that formerly had triggered the Marine Mammal Protection Act of 1972.