

**LESSONS OF NAFTA FOR U.S. RELATIONS WITH
THE AMERICAS**

HEARING

BEFORE THE

SUBCOMMITTEE ON WESTERN HEMISPHERE,
PEACE CORPS, NARCOTICS AND TERRORISM

OF THE

COMMITTEE ON FOREIGN RELATIONS
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LESSONS OF NAFTA FOR U.S. RELATIONS WITH THE AMERICAS

THURSDAY, APRIL 27, 2000

U.S. SENATE,
SUBCOMMITTEE ON WESTERN HEMISPHERE,
PEACE CORPS, NARCOTICS AND TERRORISM,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met at 9:33 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Lincoln D. Chafee (chairman of the subcommittee) presiding.

Present: Senators Chafee and Dodd.

Senator CHAFEE. Good morning. I will open the hearing on the Lessons of NAFTA for U.S. Relations With the Americas. I would like to welcome everyone here this morning.

Today we are holding a subcommittee hearing to assess the North American Free Trade Agreement [NAFTA] and its impact on U.S. relations with the Americas. The NAFTA is one of the most significant agreements of any kind, trade or otherwise, to which the United States has become a party and is cause for a number of policy considerations 7 years after its enactment. Today's hearing represents an opportunity to explore how NAFTA has impacted U.S. relations with not only Mexico and Canada, but all of the Americas.

Seven years ago, after a lively and thorough debate, the U.S. Congress approved NAFTA by a close margin. This landmark agreement eliminates trade and investment restrictions between the United States, Canada, and Mexico over a 15-year period, with most of the restrictions eliminated in the early years of the agreement. Today, NAFTA institutions are functioning, including the commissions created by side agreements to address labor and environmental concerns.

During the debate on its enactment, proponents of NAFTA argued that it would spur economic growth in all three nations, while opponents predicted it would cause a massive shift in jobs from Canada and the United States to Mexico.

Seven years later, it is difficult to assess with precision the exact number of jobs gained or lost due to NAFTA. However, at a minimum, it is accurate to state that NAFTA has accelerated trade related job trends that were ongoing before NAFTA.

In addition, while there have been genuine NAFTA-related dislocations in some sectors of the U.S. economy, others have prospered. I note that according to the Congressional Research Service, no workers in my home State of Rhode Island lost their jobs be-

cause of increased imports from or plant relocations to Mexico or Canada.

But there are many other important noneconomic factors to consider and lessons to be learned as we assess the consequences of NAFTA. These lessons will help this subcommittee take on future policy considerations involving trade, security, political, and other matters of U.S. relations with our closest neighbors. In particular, it would serve this subcommittee well to assess if and how NAFTA has helped bring about reform and modernization in Mexico as that nation approaches a critical Presidential election just 10 weeks from now.

Overall, I believe a strong case can be made that NAFTA has improved in many respects U.S. relations with Mexico and Canada.

I appreciate the appearance today of two very impressive panels of witnesses, and I look forward very much to their valued testimony. I will welcome Governor MacKay. Welcome, Governor.

STATEMENT OF HON. KENNETH H. (BUDDY) MAC KAY, JR., SPECIAL ENVOY FOR THE AMERICAS, THE WHITE HOUSE, WASHINGTON, DC

Mr. MAC KAY. Thank you, Mr. Chairman, for this opportunity to testify on the positive impact that free trade and economic integration in the Western Hemisphere has on our national interests. I will summarize my written testimony, if that is acceptable, Mr. Chairman.

Senator CHAFEE. Yes, sir.

Mr. MAC KAY. I want to begin by thanking the members of this committee and the subcommittee for supporting our continuing efforts to win final passage of the Caribbean Basin Initiative [CBI]. We are close to an agreement that is important to reach. CBI and the North American Free Trade Agreement—and hopefully, in the next few years the proposed Free Trade Area of the Americas [FTAA]—exemplify what this hearing is about: the good results that can come from free trade, open markets, and economic development.

Your subcommittee today is focusing on NAFTA and how it furthers the national interests of the United States.

The first part of the subcommittee's focus is very straightforward and easy to discuss. Dozens of studies indicate how NAFTA has helped create jobs in this country and how it has caused trade between the three countries of North America to soar. NAFTA has helped the U.S. economy and thus the United States remains strong. Our longest economic expansion in history has produced the lowest unemployment rate in nearly 30 years.

The studies that document the positive impact NAFTA has had on the U.S. economy range from the President's authoritative 5-year review, conducted by the administration in 1999, to the exhaustive State-by-State analysis conducted by the Trade Partnership in Washington, DC last summer. The study conducted by the Trade Partnership is of particular interest. It documents the positive impact that NAFTA has had on almost every State of the Union. NAFTA has contributed significantly to the economy of every State represented by the members of this subcommittee and its full committee.

Since NAFTA's inception, U.S. goods exports to Canada and Mexico increased by \$111 billion, an increase of 78 percent. These products were made by U.S. workers, many of them gaining employment in factories that were adding, not losing, jobs.

Yet, greater attention must be paid to the issue of U.S. job displacement. The administration believes we must assist displaced workers. We support the trade adjustment assistance and NAFTA transitional adjustment assistance programs.

The second part of what you are trying to do today, Mr. Chairman, is not often attempted, and I am glad to be able to help you and to discuss this issue. Your goal this morning is to examine how our national interest is served by NAFTA, a broader goal and really I believe the important question to be asked. This is an important story and statistical indices alone cannot measure the full positive impact of NAFTA. Our relations with Mexico and Canada have seldom been closer. As a result of NAFTA, we continually work to resolve problems that we as neighbors cannot ignore.

The work NAFTA accomplishes goes beyond balance sheets and trade figures. As U.S. trade increases with Canada and Mexico, economic integration increases. In that process, fair and standardized practices in both the private and public sectors are strengthened.

NAFTA serves the national interest of our country because it helps move our countries on to a common platform of democratic principles and transparent business practices. Upon this platform, we can engage in dialog and interaction that empowers human ingenuity to move problems to eventual resolution.

The underlying faith that motivated an earlier Congress to enact NAFTA has been justified. The common denominator that is the basis of the future of the Americas is NAFTA's purpose: the creation of jobs and access to markets.

Jobs is another word for trade. Jobs is the most peaceful diplomacy we can adopt. A person working is a person creating value for his or her family. Employment elevates an individual's self-worth and the individual's stake in society. NAFTA has strengthened our system of commerce based, as it is, on economic incentive.

Few things serve the interests of the United States more than the spread of democratic government and open business practices built on transparency. For the United States, NAFTA was a good first step. CBI is another step and the Free Trade Area of the Americas is the logical next step in the progression.

While expanding trade and helping our own economy grow, we are shaping values in the rest of the world and in the process, promoting democracy itself. That, Mr. Chairman, I believe is the definition of our national interest.

Thank you very much.

[The prepared statement of Mr. MacKay follows:]

PREPARED STATEMENT OF HON. KENNETH H. (BUDDY) MACKAY, JR.

Thank you, Mr. Chairman, for this opportunity to testify on the positive impact that free trade and economic integration in the Western Hemisphere has on our national interests.

I want to begin by thanking the members of the committee and the subcommittee for supporting our continuing efforts to win final passage of the Caribbean Basin Initiative.

We are close to an agreement that is important to reach because CBI enhancement, like the North American Free Trade Agreement, exemplifies what this hearing this morning is most about: The good results that can come from free trade, open markets and economic development.

Your subcommittee today is focusing on NAFTA and how it furthers the national interest of the United States.

The first part of the subcommittee's focus is fairly easy to accomplish. Dozens of studies from many sources indicate how NAFTA has helped create jobs in this country and how it has caused trade between the three countries of North America to soar. NAFTA has helped the U.S. economy remain strong, and thus the United States, during the longest economic expansion in our history.

The studies that document the positive impact NAFTA has had on the U.S. economy range from the President's authoritative five-year review conducted by the Administration in 1999 to the exhaustive state-by-state analysis conducted by The Trade Partnership of Washington, D.C. last summer.

The study conducted by The Trade Partnership is of particular interest because it documents the positive impact that NAFTA has had on almost every state of the Union. NAFTA has contributed significantly to the economy of every state represented by the members of this subcommittee and its full committee.

Since NAFTA's inception, U.S. goods exported to Canada and Mexico increased by \$111 billion, an increase of 78 percent. Those products were produced mostly by U.S. workers, in factories that were adding, not losing, jobs.

Research by the U.S. Chamber of Commerce lists company after company that have been made more competitive in the global market place and that have added or retained jobs in this country because of NAFTA.

While in some industries, displacements have occurred, other sectors have gained significantly. The overall impact of the agreement we made with our two neighbors has been good for the United States.

The current demand for workers has created the most pressing skilled labor shortages in the United States since World War II, and, due in part because of NAFTA, unemployment has reached 30-year record lows.

And Mexico has gained almost one million new, needed jobs directly from NAFTA since it went into effect. Jobs in Mexico that have been created as a result of direct foreign investment pay 48 percent better than the Mexican wage average. The number of employed workers in Canada overall in the first five years of NAFTA also increased by more than one million.

Notwithstanding the U.S. employment numbers, greater attention must be paid to U.S. job displacement. The Administration believes we must continue to assist workers who are displaced and supports reform and consolidation of the Trade Adjustment Assistance and NAFTA-Transitional Adjustment Assistance programs.

The second part of what you are trying to do today, Mr. Chairman, is not often attempted, and I am delighted to help you. Your goal this morning is to examine how our national interest is served by NAFTA.

This is an important story, and statistical indices alone cannot measure the full, positive impact of NAFTA.

Our relations with Mexico and Canada have seldom been closer. As a result of NAFTA, we enjoy healthy relations that force us continually to address aspects of our relationships that can be improved.

NAFTA's side agreements create mechanisms that oblige each country to enter into discussions about environmental and labor issues. The inclusion of these elements into the NAFTA framework guarantee that attention will be given over the long term to these important aspects of our relationships.

The work NAFTA accomplishes goes beyond balance sheets and trade figures. As U.S. trade increases with Canada and Mexico, economic integration increases and, in that process, fair and standardized practices in both the private and public sectors are strengthened.

Trade depends on commercial and personal interactions. Standards make it easier for these transactions to take place, and increased trade forces these practices to be commonplace occurrences on a daily basis.

NAFTA has struck down trade barriers, and its implementation has encouraged the breaking down of other barriers in Mexico because modern business practices depend on streamlining operations. Consumer banking, which has not always been a common experience for many Mexicans, has increased the flow of money in commerce and heightened overall economic activity.

NAFTA serves the national interest of our country because it helps move our countries onto a common platform of democratic principles and transparent business practices. Upon this platform, we can engage in dialogue and interaction that empowers human ingenuity to move problems to eventual resolution.

The underlying faith that motivated an earlier Congress to enact NAFTA has been justified. The common denominator that is the basis for the future of the Americas is NAFTA's purpose: The creation of jobs and access to markets.

Jobs is another word for trade, and jobs is the most peaceful diplomacy we can engage in because a person working is a person creating value for his or her family, elevating in the process the worth of an individual's stake in society. NAFTA has strengthened the value of economic incentive for the individual.

In this view of the future, people are free to let their creativity take them as far as they want to go. It is not an accident that the word "free" is part of NAFTA's title. The design of its creators was to promote freedom as much as economic progress.

Mexico, driven by the increase of our trade produced by NAFTA, has replaced Japan as this country's second largest trading partner, and Canada remains our largest trading partner.

The impact of NAFTA is not limited to economics. Trade also accelerates the progress that a nation can make if it opens its society to new technology that can vastly improve the quality of the lives of its citizens. It encourages common standards and promotes efficiencies in other sectors of society. It allows us to move past historical disputes, and mitigates cultural differences.

Since becoming the President's special envoy to the Americas, I have been to 23 of the 34 democratic countries that comprise the hemisphere, and I can tell you that a new spirit of what is possible prevails.

The challenges that exist today in the hemisphere in regards to the successful transition of the Latin and Caribbean nations to full, stable democracies are many, but they are closely linked to the success of their economic development and their role in a free, global marketplace.

The stage is set for progress to be made: The Americas are already the world's largest consumers of U.S. products and 98 percent of the people of Central and South America live under democratic rule.

Latin America and NAFTA countries consume 44 percent of all U.S. exports, creating jobs for workers in the United States and Latin America. By 2010, our exports to the Americas will represent nearly 50 percent of our total exports to the world—more than to any other region, and exports from the Americas will also increase, creating jobs in those countries.

The success of NAFTA is also changing us. We all know that the mechanisms and structures that have traditionally formulated foreign policy for and in this country have only minimally included a north-south perspective.

The east-west continuum that has traditionally dominated the foreign policy of this nation remains immensely important in how we perceive the world and its threats and opportunities. But it must change to include a north-south perspective because this hemisphere is the site of great economic opportunity.

It is also the site of an increasingly growing Latino population within and without the borders of the United States that will matter more in the formulation of policies that affect the hemisphere. In less than three years, the Latino population in the United States will become our largest minority population.

For the United States, NAFTA was a first step in building this new world; CBI is another step; and the FTAA is the next logical progression. The rest of the hemisphere is moving in the same direction. Mercosur, Caricom and the Andean Pact are the south's natural impulse to integrate and the FTAA is closer to reality as a result.

The efforts to develop democratic societies and to develop competitive economies are part and parcel of an approach that serves the needs and interests of the United States.

This approach contributes directly to the economic and political security of the United States and the regional security of the hemisphere.

Few things serve the interests of the United States more than the spread of democratic government and open business practices built on transparency. This hemisphere has had enough conflict and enough benign neglect to last the next five generations. Ideological struggles in the hemisphere have been replaced by the struggle to develop the region economically.

Many people do not appreciate the extent to which trade agreements such as CBI and NAFTA and, soon, the FTAA, export the best of our values, including fair trading practices, the rule of law, workers' rights and transparency.

While expanding trade and helping our economy grow, we are shaping values in the rest of the world and, in the process, promoting democracy itself.

That, Mr. Chairman, I believe, is the definition of our national interest. Thank you.

[Additional questions submitted for the record follow:]

RESPONSES OF HON. KENNETH H. (BUDDY) MACKEY, JR. TO ADDITIONAL QUESTIONS FOR THE RECORD SUBMITTED BY SENATOR JESSE HELMS

Question 1. How important were the U.S. policies on NAFTA and FTAA in stimulating economic and democratic reform in Latin America and the Caribbean?

Answer. Both the NAFTA and the ongoing negotiation of the FTAA have succeeded beyond expectation in terms of encouraging open markets, expanding trade, promoting greater transparency, and supporting judicial reforms, while also enhancing cooperation and productive dialogue on other important foreign policy issues.

In terms of the NAFTA, the great concern was about the treatment of labor and environment issues. The NAFTA established side agreements on labor and environmental matters that require each nation to enforce its own laws and establishes mechanisms to resolve disputes. In practice, the NAFTA has become a vehicle to address complaints by Canada, Mexico and the United States and to press for progress on labor and environment through the North American Agreement on Labor Cooperation (NAALC) and the North American Agreement on Environmental Cooperation (NAAEC). The NAFTA has also promoted partnerships and the creation of networks among the business communities and segments of civil society. This process has helped promote transparency and information sharing, increased broad sector participation in policy issues, and improved conditions for workers. The result has been stronger democratic governance and closer cooperation among the NAFTA countries, and increasing expectation and interest among other countries in the hemisphere to enter into similar free trade agreements.

Since NAFTA, countries throughout the hemisphere have formed or expanded regional trade regimes. MERCOSUR includes a democracy clause, which it implemented to support a constitutional transition of government in Paraguay, and Brazil has led efforts to build a greater South America trade consensus. The interest in the Free Trade Area of the Americas has only increased, as has the understanding that trade and prosperity are interconnected with democracy and rule of law.

Question 2. How have the Central American and Caribbean countries been affected by NAFTA?

Answer. As NAFTA's success becomes apparent, countries in Central America and the Caribbean have sought to increase trade with the United States. During the recent renewal of the Caribbean Basin Initiative (CBI), the Caribbean and Central American countries (except Cuba) negotiated an increase in U.S. trade benefits for apparel and other industries to be eligible for duty free treatment, similar to terms given to Mexico under NAFTA. The CBI countries pointed to Mexico's large gain in market share for apparel exported to the U.S. under the NAFTA and sought equal terms to develop the apparel industry in the CBI region. The new terms, adopted in the Caribbean Basin Trade Partnership Act of 2000, will help the CBI countries and the United States as it develops this industry in the region. Throughout this process, the CBI countries have engaged in closer cooperation and emerged as a more cohesive voice on trade issues. This will have a positive impact as the hemisphere moves to greater economic integration and the conclusion of a Free Trade Area of the Americas.

Question 3. Would you summarize the agreements that have been concluded by hemispheric leaders through the Summit of the Americas process?

Answer. The Summit of the Americas process has launched several hemispheric agreements, declarations and conventions that are at various stages of completion or negotiation and that cover anticorruption, counter-narcotics, education, energy, health, security, human rights, indigenous populations, justice systems, labor, telecommunications, terrorism, trade, transportation, and women. We have completed an Inter-American Convention on Transparency in Conventional Weapons Acquisitions, the Inter-American Convention Against Corruption, and the Inter-American Convention on the Prevention, Punishment and Eradication of Violence Against Women, among others. In addition, the Summit process is responsible for convening hemispheric ministerial meetings that encourage continued high-level discussions on cross-border issues, such as justice system reform, transportation, energy, the environment, education, and financial systems. The negotiation of the Free Trade Area of the Americas is on track and will include discussion of labor and environment issues. The next Summit of the Americas will be an important opportunity for the United States to signal its support for the hemisphere and summit initiatives. The upcoming Summit will take place in April 2001 in Quebec City, Canada, within the first ninety days of the inauguration of the next U.S. President.

Question 4. What is the status of negotiations possibly leading to a Free Trade Area of the Americas (FTAA)? Are the negotiations on track to achieve an agreement that could go into force in 2005?

Answer. The negotiation for the Free Trade of the Americas is on schedule. At the Toronto Ministerial meeting (November 1999), the hemisphere's Trade Ministers instructed the FTAA negotiators to prepare a draft agreement for review at the next hemispheric Trade Ministers meeting prior to the Quebec City Summit of the Americas. The draft agreement will then be submitted to the Heads of State at the Quebec City Summit of the Americas in April 2001. President Lagos of Chile has suggested that the FTAA be concluded by 2003, to focus on ratification and implementation by 2005. Under this expedited timetable, the FTAA could be negotiated and ratified in the United States during one term of the presidency.

Question 5. Do you expect the agreement to be similar to NAFTA or do you expect it to be different in many regards? What should be the main goals of the United States in negotiating the agreement?

Answer. In many respects, NAFTA was a bold experiment. It was the first major trade negotiation where environmental and labor issues played a central role in terms of challenges and opportunities throughout the negotiations. These important matters were dealt with through separate side agreements concerning labor and environment.

The FTAA is an extraordinarily ambitious, complicated initiative with enormous potential for the hemisphere. It brings together 34 democratic nations and addresses the most complex issues: the opening of services markets, the development of electronic commerce, the response to the growing interest in trade and trade policy by civil society, and more. By 2005, we aim to create a single trade zone consisting of nearly 700 million people and a combined GDP of \$10 trillion. It will expand trade relationships that currently absorb more than half of all the goods exported from Brazil and roughly 46% of goods exported from the United States. It will strengthen our ability to achieve shared goals in broader trading systems. And ultimately, it will contribute to a lasting, prosperous, peaceful and democratic hemispheric community, one that is better positioned and more inclined to address our common responsibilities.

As with NAFTA, the main goals of the United States for the FTAA is to develop a hemispheric trading system that encourages steady economic growth, equitable policies, protection of the environments, fair labor standards and stable financial systems. This will strengthen hemispheric cooperation on the range of issues important to our country.

Question 6. Do you believe that participation in an FTAA should be limited to countries that have and maintain democratically-elected governments? How might these conditions be taken into account in a regional trade arrangement?

Answer. Those countries whose leaders are committed to promoting full participation of their citizens in the democratic process and to negotiating free and fair open markets are best able to contribute in a manner consistent with the goals of the Summit. Participation in the Summit of the Americas process is limited to the 34 democratically elected governments in the hemisphere. The Plan of Action developed at the Miami Summit states that "the strengthening, effective exercise and consolidation of democracy constitute the central political priority of the Americas." The FTAA negotiation is an important product of the Summit process, involving the democratically elected leaders of the hemisphere. By instilling the principles of transparency and the rule of law into commercial relations throughout the hemisphere, the FTAA negotiation is helping to strengthen democracy.

Question 7. Do you believe that participation in an FTAA agreement should be limited to countries that are taking substantial steps to combat corruption? How might these conditions be taken into account such a regional trade arrangement?

Answer. One of the fundamental goals of the Summit of the Americas is the elimination of corruption. The Declaration of Principles of the Summit of the Americas states that "Effective democracy requires a comprehensive attack on corruption as a factor of social disintegration and distortion of the economic system that undermines the legitimacy of the political institutions." At the 1994 Miami Summit, the Heads of State agreed to strengthen their investigative and enforcement capacity with respect to acts of corruption, to establish mechanisms of cooperation in the judicial and banking areas, and to develop hemispheric approach to corruption. Corruption is a severe and debilitating reality in many countries, and the Administration has made it a priority to address the issue.

The countries negotiating the FTAA are those participating in Summit and other multilateral anti-corruption efforts. The Clinton Administration is assisting coun-

tries to eliminate corruption by providing judicial reform assistance, insisting on compliance with integration obligations, and encouraging ratification of the Inter-American Convention Against Corruption. To date 26 countries in this hemisphere have signed the Inter-American Convention Against Corruption and 18 have ratified it. In addition, several have signed the OECD Bribery Convention, agreeing to make it a crime to bribe foreign public officials for business advantage. Agreements such as the FTAA will help drive out corruption by creating market oriented policies that promote transparency, competition, and rules based behavior.

Senator CHAFEE. Thank you, sir.

Mr. Bryan Samuel, Acting Assistant Secretary of State for Economic Affairs. Welcome.

STATEMENT OF BRYAN SAMUEL, ACTING ASSISTANT SECRETARY OF STATE FOR ECONOMIC AFFAIRS, DEPARTMENT OF STATE, WASHINGTON, DC

Mr. SAMUEL. Thank you very much, Senator Chafee. I am pleased to be here and have the opportunity today to discuss lessons from NAFTA and prospects for further trade liberalization in the Americas.

I will just, if I may, summarize the written statement that we brought.

Senator CHAFEE. Please.

Mr. SAMUEL. The economic benefits of NAFTA are clear. It has generated growth and economic momentum throughout North America. This helps spur the creation of a North American market with low and declining trade barriers, enhance cooperation on labor and environmental issues and economic innovation.

As the Governor mentioned, trade among the three NAFTA countries has grown spectacularly since NAFTA entered into force in 1994. NAFTA has helped us spur growth in some of the most dynamic sectors of our economy such as information technology. With disappearing trade barriers and greater predictability, companies can better compete in this rapidly growing market.

NAFTA has shown the American public and U.S. workers what opening markets for our products can do. My prepared statement presents several examples, but there are countless other success stories from throughout our 50 States. I understand that later in this hearing you will hear from a company in Rhode Island that has benefited from NAFTA-driven trade liberalization.

Thanks to NAFTA, we have also changed investment patterns, leading companies from all three NAFTA partners to base their investment decisions more fully on economic factors. Increased investment in NAFTA partner countries has often led directly to more jobs here at home, as manufacturing operations become closely integrated across borders. Moreover, the opportunities created by the rapid growth of the North American market has pushed the total stock of foreign direct investment in the NAFTA countries to record levels.

We have deepened relationships with our North American neighbors. We are constantly working with our NAFTA partners to resolve problems and address common challenges. NAFTA has been instrumental in making economic reforms in Mexico permanent and irreversible. And it is important to remember that while NAFTA has done much to increase economic integration, the

United States, Mexico, and Canada remain in control of our own destinies.

NAFTA has also provided mechanisms and institutions to increase cooperation on labor and the environment. We work closely with both countries to promote cooperation on boundary waters and controlling transboundary pollution. As of March, through the North American Development Bank, we have activated over \$200 million in loans and grants for 26 projects to reduce water pollution and improve health conditions along our Southwest border. Since 1994, the United States, Mexico, and Canada have undertaken 36 projects through the Commission for Environmental Cooperation. Some examples are in my prepared statement.

The North American Agreement on Labor Cooperation, the labor supplemental agreement to NAFTA, allows us to advance labor issues and monitor enforcement of labor laws and creates a forum for public concerns about labor law enforcement. Submissions filed under the agreement prompted ministerial consultations on freedom of association and safety and health issues and have led to trilateral seminars on union registration, certification of elections, recognition and union democracy.

We are now in the process of building on the success of NAFTA to create a hemisphere-wide Free Trade Area of the Americas, encompassing all of the democracies of the Western Hemisphere. When completed in 2005, the FTAA will be the largest free trade zone in the world, establishing a \$10 trillion market with more than 800 million people.

The abandonment of outdated economic models and the embrace of open markets, democracy, and the rule of law have made such an initiative possible. Trade groupings among Latin American countries have already dramatically lowered barriers and led to increased growth and political stability.

With an incomplete transition to free markets and unforeseen events such as hurricanes, El Niño, and the Asian economic crisis, however, vulnerabilities remain. Clearly, a hemisphere-wide trade agreement would help to strengthen market economies for the long term while providing U.S. companies with better access to Latin American markets.

The FTAA negotiations have already made considerable progress. Last November's ministerial meeting in Toronto saw the approval of a package of business facilitation measures, mostly in the critical customs area, that are already being implemented. Nine FTAA negotiating groups are at work on issues ranging from market access in agriculture to competition policy. A completed FTAA should eliminate tariffs, establish better protection of intellectual property, encourage competition, transparency, and impartial regulation and create an effective means of resolving trade disputes. The FTAA process includes a Civil Society Committee, which I have the honor to chair for the United States. This committee is designed to advise governments on the views of business, labor, and consumers, environmentalists, academics, and other citizens groups, as the negotiations proceed.

Before I conclude, I would like to echo the Governor's mention of the bill to enhance the Caribbean Basin Initiative which, along with the companion Africa Growth and Opportunity Act, is cur-

rently in conference. The CBI is the key component of the administration's strategy to help the countries of the region strengthen democratic governance through economic development. Enhancing CBI will enable Caribbean nations to compete more effectively, to provide better opportunities for U.S. exports and help prepare these countries to undertake the obligations of an FTAA agreement. I urge your favorable consideration.

Mr. Chairman, in the 6 years NAFTA has been in effect, it has helped increase economic growth and stability and strengthened the bonds of friendship. In doing so, NAFTA has served U.S. interests well.

An FTAA will provide similar benefits on a hemispheric basis. We look for your support as we move vigorously to bring the negotiation process to fruition.

Thank you for the opportunity to testify today.

[The prepared statement of Mr. Samuel follows:]

PREPARED STATEMENT OF BRYAN SAMUEL

Senator Chafee and Members of the Committee, I am pleased to have the opportunity today to review what lessons we can take from NAFTA and apply to our relations with the rest of the Americas.

I would like to review first the significant successes we have experienced in expanding trade with our two NAFTA partners, Canada and Mexico and in so doing, strengthening the relationships with our North American neighbors. Then I would like to review prospects for extending these successes to the rest of the Western Hemisphere.

NAFTA'S RECORD

The economic benefits of NAFTA are clear. It has generated growth and economic momentum for many regions, communities and individual citizens. NAFTA has helped spur the creation of a North American market characterized by low and declining trade barriers, common standards, enhanced cooperation on labor and environment issues and economic innovation and dynamism. Trade among the three NAFTA countries has grown by 96 percent since NAFTA entered into force in 1994. In dollar figures, our trilateral trade increased from \$289 billion in 1993 to about \$570 billion in 1999.

In expanding trade in North America, NAFTA has contributed to job creation at home. Since NAFTA entered into force, U.S. employment has risen by over 7 percent (12.8 million jobs) and unemployment has dropped from 6.5% to 4.1%. Many of these jobs are tied directly to increased trade, and according to Commerce Department data, export-related jobs pay an average of 16 percent more than other jobs.

The trade liberalization measures of NAFTA have played a significant role in spurring growth in some of the most dynamic sectors of our economy. For example, the information technology industry now generates over one-third of growth in the U.S. GDP and has benefited greatly from lower barriers in Canada and Mexico. With disappearing trade barriers and greater predictability engendered by NAFTA, companies can plan better and more effectively compete throughout this dynamic market.

NAFTA has shown to the American public, and to U.S. workers, what opening up markets for our products can do. The statistics cited earlier are represented in countless success stories at the individual company level:

- Coded Communications, a small manufacturer of wireless mobile data communications systems, has seen its employment grow by 25% since NAFTA went into effect, with plans to expand employment by an additional 20% in the next 18 months;
- Taylor Dunn, another California firm which manufactures electric vehicles, added fifty workers because of increased sales after NAFTA reduced Mexico's tariff on its products from 25% to zero;
- Farmland Industries of Kansas City, the largest farmer-owned cooperative in North America, which sold \$50 million in wheat, corn and soybeans to Mexico pre-NAFTA, is now exporting \$450 million of its products to Mexico, including beef and pork;

- Goulston Technologies of Monroe, North Carolina, which manufactures synthetic fiber lubricants, saw exports to Mexico increase 250% since NAFTA began, and accordingly increased its employee base. Tariffs for its product dropped from 15% to zero thanks to NAFTA.

I understand that later in the hearing we will hear from a company in Rhode Island that has benefited from NAFTA-driven trade liberalization.

These successes have been replicated many times over throughout our 50 states. In many respects, NAFTA has created a true North American market.

NAFTA has also changed investment patterns, leading companies from all three NAFTA partners to base their investment decisions more fully on commercial factors alone. NAFTA is eliminating requirements that forced U.S. firms to invest in Mexico if they wanted to sell products and services there. Companies can now more easily spread manufacturing and distribution operations among all of the NAFTA partners. This is leading to higher degree of economic integration across our borders, spurring the economies of all three nations.

A U.S. company building a facility in Mexico, for example, will often need to increase production from its U.S. base to supply it, leading manufacturing operations to become closely integrated across borders. When investment occurs further afield, such relationships are often not as strong. Moreover, the dynamism of the North American market and the greater attractiveness of a larger, more integrated market has helped spur investment levels from all sources. The total stock of foreign direct investment in the NAFTA countries has now reached \$864 billion.

NAFTA has also had the positive effect of mitigating the adverse effects of regional economic downturns, such as what occurred in Asia several years ago. Despite Asia's contraction of purchasing power, NAFTA's reduced barriers permitted us to increase our exports to Mexico and Canada by \$13 billion in 1998. Moreover, the NAFTA agreement means that even during times of economic difficulty such as Mexico's peso crisis in 1994-95, North American markets must stay open to us.

The economic benefits of NAFTA have led to equally important beneficial effects concerning our wider relationships with our North American neighbors. As trade rises to unprecedented levels, we are constantly being brought together to resolve problems and address common challenges. The higher growth and greater employment resulting from NAFTA have also helped to create increased confidence in NAFTA countries.

With respect to Mexico in particular, NAFTA has been instrumental in making necessary economic reforms permanent and irreversible and in reinforcing the rule of law. And it is important to remember that while NAFTA has done much to increase economic integration in North America, the U.S., Mexico and Canada remain sovereign, each very much in control of our own economic and political destinies.

LABOR AND ENVIRONMENT

NAFTA has also provided mechanisms and institutions to increase cooperation on labor and the environment.

Environmental issues loom large in our NAFTA relationships, given the shared North American continent and the long borders with both Mexico and Canada. We work closely with both Canada and Mexico to promote cooperation on resolving issues related to boundary waters and controlling transboundary air and water pollution. For example, the North American Development Bank (NADB) is working with the sponsors of 29 certified projects that are applying for financial assistance from the Bank. As of March 2000, the NADBank has authorized \$209 million in loans and/or grant resources for 26 infrastructure projects. These projects will represent a total investment of \$764 million to reduce water pollution and improve health conditions.

Since 1994, through the Commission for Environmental Cooperation (CEC), the U.S., Mexico and Canada have undertaken 36 projects in biological diversity, conservation, sound chemical management, marine ecosystem protection, pollutant reporting, and trade-environment issues. Examples include conservation of the Monarch butterfly, developing the North American Bird Conservation Strategy, and the initiation of a North American Biodiversity Information Network. Under the CEC, the North American Fund for Environmental Cooperation (NAFEC) has awarded 127 community-based grants totaling \$4.8 million to community-based initiatives contributing to the conservation, protection and enhancement of the North American environment.

The North American Agreement on Labor Cooperation (NAALC), the labor supplemental agreement to NAFTA, allows us to advance labor issues and monitor enforcement of labor laws in our trading partners. It also creates a forum for airing public concerns about labor law enforcement directly with governments. Twenty-two

submissions have been filed under the NAALC, several leading to ministerial consultations and adoption of work programs to address concerns raised in the submissions. In 1997, for example, submissions prompted ministerial consultations on freedom of association and safety and health issues. Earlier consultations have led to a trilateral conference on the labor rights of women in North America, and a work program of trilateral seminars on union registration, certification, elections, recognition and union democracy.

And of course, NAFTA has been instrumental in creating new higher-paying jobs, not just in the United States, but also in Canada and Mexico. This has led to increased demand for U.S. products and services from consumers throughout North America.

EXTENDING NAFTA'S SUCCESS TO THE REST OF THE AMERICAS

We are now in the process of building on the success of NAFTA to create a hemisphere-wide Free Trade Area of the Americas, encompassing all of the democracies of the Western Hemisphere. When completed in 2005, the FTAA will be the largest free trade zone in the world, establishing a market exceeding \$10 trillion, with more than 800 million people. It will further enhance trade within our hemisphere, which already accounts for 47% of our total trade.

The dramatic changes in Latin America over the past decade have made such an initiative possible. Throughout the hemisphere, countries have moved from outdated economic models emphasizing state control, closed markets and import substitution to privatization and open markets where foreign trade and investment are welcome. Just as important, democracy and the rule of law are now very much the norm rather than the exception.

In opening up their trade regimes, nearly all countries in the Western Hemisphere have participated in establishing a wave of trade groupings that have dramatically lowered barriers and contributed significantly to economic growth and political stability.

Yet the transition to free markets is incomplete and there is danger of drifting backwards. Unforeseen events have also taken a toll. In recent years, many Latin countries have been severely affected by hurricanes, El Niño, the fallout from the Asian economic crisis and the subsequent decline in commodity prices. Clearly, a hemispheric-wide trade agreement would help to strengthen market economies while providing welcome new access to Latin American markets.

The leaders of the Americas have already made much progress in building a more integrated and prosperous hemisphere. In two Summits of the Americas, leaders have set out numerous far reaching goals, including a program of universal education, access to modern telecommunications and the Internet, cooperative programs of environmental law enforcement, crime and narcotics control, and anticorruption measures. At their December 1994 summit, they made the historic decision to create the FTAA by 2005.

FTAA

In taking part in the FTAA negotiations, the administration is applying the many lessons we learned in establishing the NAFTA. For instance, prior to the launching of formal negotiations, the 34 FTAA countries met regularly to discuss existing trade regulations and practices in the hemisphere and began to identify issues for negotiation. Nine negotiating groups and three committees were formed, and actual negotiations began in September 1998. Since then, negotiators have been meeting in Miami nearly every week.

The negotiators created annotated outlines for the proposed chapters of an FTAA agreement in time for last November's Ministerial meeting in Toronto and are now working on a draft text. The ministers in Toronto also approved a package of meaningful and practical business facilitation measures that is already being implemented. The measures are mostly in the critical customs area, and should do much to promote commerce throughout the hemisphere.

The nine FTAA negotiating groups, which range from market access and agriculture to competition policy, have as broad goals reducing trade barriers, facilitating trade and establishing clear rules. The FTAA aims to eliminate tariffs, establish better protection of intellectual property and encourage competition, transparency and impartial regulation of the services industries. The FTAA will also create an effective means of resolving trade disputes. All of these measures will greatly expand consumer choice, lower prices and spur innovation.

In addition to the nine negotiating committees, the FTAA has established three other groups whose mandate is to take into account the special challenges of negotiating a trade agreement in the 21st century. An e-commerce committee is working

to identify how trade rules might best address the interests of consumers and business in this rapidly growing sector. Another committee is specifically focused on the needs of smaller economies while the third is designed to advise governments on the views of business, labor, consumers, environmentalists, academics and other citizens groups. The establishment of this Civil Society committee, for which I am the U.S. lead, is unprecedented in any major trade negotiation.

Through the reduction of trade barriers and the institution of fixed and clear rules, the FTAA will strengthen the values of openness, accountability, and democracy.

CBI

Before I conclude, I would like to take the opportunity to mention a related issue, the bill to enhance the Caribbean Basin Initiative (CBI), which along with the companion Africa Growth and Opportunity Act, is currently in conference. Since its inception in 1983, CBI has encouraged the countries in the Caribbean and Central American region to diversify their industries by providing preferential access to the U.S. market. It is a key component of the Administration's strategy to help the countries of the region strengthen democratic governance through economic development.

The existing program has been a great success for both the U.S. and the region, with annual two-way trade now topping \$40 billion. Enhancing the CBI will enable Caribbean nations to compete more effectively while providing better opportunities for U.S. exports. Passage of this measure would support favorable economic and political trends in the region and also help enable these countries to undertake the obligations of an FTAA agreement.

CONCLUSION

We have achieved much during the six years NAFTA has been in effect. In increasing economic growth and stability in North America and strengthening the bonds of friendship and cooperation across the continent, NAFTA has served U.S. interests well.

An FTAA will provide similar benefits on a hemispheric basis. We intend to continue to move vigorously to bring this process to fruition by the 2005 target date. We look for your support.

Thank you for the opportunity to testify today. I would be pleased to respond to any questions you or other members of the committee may have.

Senator CHAFEE. Well, thank you very much.

As I mentioned in my opening statement, NAFTA passed by a close vote, and now we are moving forward with the Caribbean Basin Initiative and FTAA, as well as free trade agreements in other parts of the world.

Do either of you have any advice on how we can push these initiatives, especially considering all the positive testimony we have had both not only on the economic parameters of NAFTA but non-economic, what has happened with environment, labor, economic innovation, noneconomic progress we have made as a result, you might argue, of NAFTA's implementation? So, any advice as we go forward on some of these other initiatives to make sure we can get passage?

Mr. MACKAY. Mr. Chairman, I am not sure I would call this advice, but my observation, as we look at this broad range of efforts, is that it is important that there be a forum where the civil society issues can be discussed. There is no denying that this is an area of great concern, Seattle first and then here in Washington, the demonstrations.

In some countries perhaps that kind of issue can be held aside. In our system of government it simply cannot. I think that the way the FTAA is set up so that there is a forum for those concerns to be heard inside the building, instead of outside in the street, is the right way to do it.

I believe that the FTAA process has been set up in a way that reflects a great deal of wisdom in the sense that the focus is not only on trade, but it is on democracy, on strengthening democracy, on finding ways to help the benefits of trade be spread broadly among society. The countries where we see stresses today are countries where they have now committed themselves to democracy and open markets, and yet the ordinary working people, the middle class, who have been prejudiced by the recessions and the other adverse events of the past few years, have yet to see that this benefits them.

I believe that this idea that it be not just trade, but that you negotiate other things and that the United States can be in the role of a helping partner, as we are on environmental issues, as we are in helping to strengthen justice and helping with education, helping with health care. I believe this is the right way for us to do it. And I think NAFTA in some ways was the pilot project, and I believe the FTAA process now has, in effect, applied a number of the lessons of NAFTA.

Mr. Chairman, I was very pleased that you are hosting this meeting. What we need are forums where we can discuss this and where people can understand the breadth of the effort that is taking place. Our Government has a binational commission with Mexico where Cabinet members are working with their counterparts. Some of these very knotty issues are not going to be resolved immediately, but they will be resolved in the atmosphere of trust that is building between our countries.

So, my observation, not my advice, would be I think we are on the right track. My hope would be that the Congress will take a great interest in the depth and the breadth of the effort that is being made here. I think it is an unprecedented effort.

Senator CHAFEE. Well, thank you, Governor.

Mr. Samuel, anything to add?

Mr. SAMUEL. Yes. I agree very much with what Governor MacKay has said certainly.

I think the administration needs to continue to work on getting the message out of the benefits for the economy of trade liberalizing agreements. I appreciate this opportunity to do that. Again, trade is one aspect of our overall relationship with countries in the foreign policy and should be seen, I think, in that broader context.

Finally, I think we do need to address the concerns, as Governor MacKay mentioned in his statement, that workers are nervous about trade liberalization, and there are often dislocations. Again, the administration and the Congress, as it looks at various trade adjustment legislative measures, need to keep in mind the role that those programs can have in preparing workers for adjustments and continuing participation in a changing economy.

Senator CHAFEE. Just to followup a little bit, do you think we could improve, as we go forward, any aspects of NAFTA as we look at other trade agreements throughout the world?

Mr. SAMUEL. I think that certainly NAFTA is, as we say, a state-of-the-art agreement. It has certainly been proved right in many of its provisions. As we continue ahead, there are certainly areas that NAFTA did not address fully that we can continue to look at. In

areas of services, there are perhaps other services that might be covered for liberalization.

Now that we have had some experience in the dispute settlement procedures of NAFTA, we may, as we talk in perhaps a new round, want to add greater measures of transparency and openness in the dispute settlement procedures, as we move forward and look at new agreements.

Similarly, I think we would like to continue to revisit some of the agriculture interests, especially as regard Canada which is in the NAFTA, as we look forward perhaps to negotiations in the WTO.

Senator CHAFEE. Thank you very much.

Governor, anything to add on that? Any areas, job dislocation or the criticism—we are here praising NAFTA. I do not know, but I am sure there are critics out there—and how we address their concerns?

Mr. MACKAY. Of course, I think it is important that we do as much as possible to continue to tell the story. In some ways, things are moving on and people sometimes look at NAFTA as yesterday's news. I mean, we are now working on something else. The truth of the matter, as Secretary Samuel has said, NAFTA continues to be a state-of-the-art agreement.

My own observation is that some of the issues that were dealt with have proven to be much broader than could have been anticipated. I think the efforts jointly working on environmental issues is a very good example. There is a cooperative effort to raise the standards, but it turns out that is a very difficult issue and one that nobody can walk away from. We have to just continue together.

The trade adjustment and dislocation issue continues to be extremely important. The law needs to be continued. The administration needs to continue its commitment to make sure the law works. The benefits that are on the books have got to be benefits that are, in fact, delivered to workers who have found their lives disrupted because of trade dislocations.

Senator CHAFEE. I appreciate very much your time in coming here. I suppose the message is we have to continue to communicate the benefits of agreements such as this as we go forward, not only in the Western Hemisphere but around the world. Thank you very much. It is worthwhile.

We will take a 5 minute recess and convene the second panel.

[Recess.]

[Additional questions submitted for the record follow:]

RESPONSES OF BRYAN SAMUEL TO ADDITIONAL QUESTIONS SUBMITTED FOR THE RECORD

Question 1. What are the major benefits for Mexico and for the United States from NAFTA? What are the sources of dissatisfaction with NAFTA in Mexico?

Answer. Clearly, NAFTA has been a major engine of trade-driven growth for the United States, as well as for Mexico and Canada. During NAFTA's first five years, U.S. goods exports to our NAFTA partners (Mexico and Canada) rose \$93 billion or 66 percent (to \$235 billion), including \$37 billion in export growth (a 90 percent increase) to Mexico and \$56 billion in export growth to Canada. Jobs supported by U.S. goods exports to Canada and Mexico total an estimated 2.6 million in 1998, 31 percent (600,000 new jobs) more than in 1993. In the United States, export-related jobs pay an average of 16% more than non-export related jobs.

The vast bulk—over 85 percent—of our NAFTA trade is in manufactured goods. The U.S. manufacturing sector grew over 66 percent between 1993 and 1998. For instance, our exports of textiles and apparel products to our NAFTA partners have more than doubled, topping \$8 billion in 1998.

The benefits of the NAFTA are by no means limited to the United States. Our decision to open doors and break down barriers is producing a thriving relationship among our three countries—one that has led to strong economic growth in the region and that has helped to fuel global economic growth in recent years. Since NAFTA was implemented, trade within North America has increased around 75 percent. All three NAFTA partners now enjoy a bigger piece of a much larger trade pie—and the jobs and economic opportunities created are key to our continued well-being. Merchandise trade among NAFTA's partners reached \$507 billion in 1998, a leap of \$218 billion in just five years.

During NAFTA's first five years, employment in Mexico grew by 22 percent, generating 2.2 million jobs; and employment in the United States grew by more than 7 percent, generating 12.8 million jobs.

Although Mexico is very pleased overall with NAFTA's benefits, cross border trucking has been a source of dissatisfaction for Mexico, it is currently in the NAFTA dispute resolution system. In addition, Mexico seeks greatly increased access to our sugar market. Some in Mexico have, inappropriately, blamed NAFTA for weaknesses in their agricultural markets.

Question 2. In your opinion, how much progress has Mexico made in establishing democratic practices, and to what extent, if at all, could the progress be attributed to NAFTA?

Answer. The huge upswing in trade, and contact with the rest of the world that NAFTA has catalyzed, has done much to spur the development of Mexico's political institutions. The legislative branch of government, no longer under the sole control of the PRI, is more independent and assertive of its constitutional prerogatives than ever. The Executive no longer "taps" the new President. Mexico is today in the midst of its most open electoral campaign ever—one that the opposition could win. The Mexican media is likewise more free and independent of government control than at any time in recent Mexican history.

While it is difficult to quantify how much of this progress in political institutions can be attributed to NAFTA, one can certainly argue that closer ties with the world's strongest democracy and the increased prosperity the NAFTA has engendered have improved social and political mobility—in effect helping to empower a broader spectrum of the Mexican people.

Question 3. How much progress has Mexico made in terms of opening the economy to foreign trade and investment? In what areas do you expect to see additional progress? In what areas do you see a lack of progress?

Answer. NAFTA covers about 97 percent of Mexico's imports from its NAFTA partners. Tariff rates on covered items have either been reduced to zero or are on a schedule to reach zero by 2004. In most cases, Mexico is on schedule or ahead of schedule in the phase out process. Mexico has negotiated or is negotiating free trade agreements with a number of other countries and the European Union. There is apparently interest in negotiating such agreements with Japan and Singapore.

Some critics feared the NAFTA would create incentives for companies to close up shop in the United States and move their plants to Mexico. Instead, what has happened is an increase in integration and competition to the benefit of the United States, Mexico, and Canada. If you look at the best measure of where firms are putting their money—foreign direct investment and direct investment abroad—the facts show that investment has risen in all three countries.

U.S. direct investment in Mexico reached a total of about 25.9 billion dollars (historical cost basis) in 1998, about 7% more than in 1997. It is concentrated in manufacturing (maquilladoras) and financial services. The rate of total foreign direct investment in Mexico during the period 1995-2000 is roughly double that of the preceding five years. In particular, Mexico is opening its financial services sector (primarily banking) to foreign investment.

Mexico maintains a number of state monopolies, in such areas as petroleum and petrochemicals, and certain businesses are limited to minority foreign participation.

Question 4. What is the status of Mexican efforts to open the electricity sector to foreign investment? Do you foresee a time when the petroleum sector would be more open to foreign investment?

Answer. The Mexican administration made proposals (involving constitutional changes) during 1999 to privatize or open to private sector investment portions of the national electrical power system (other than transmission). These were sub-

jected to serious political challenges and were not pressed. It is not possible to predict what steps, if any, will be taken in this direction in the near future. However, it should be noted that demand for electricity is generally believed to be growing at six percent per year; some steps will be needed to expand power supply.

As for petroleum, its status as a state-owned resource makes it improbable that it will be opened to foreign investors. The sentiment is deeply rooted in Mexico that this resource is and must remain the patrimony of the Mexican "nation." An attempt to privatize production facilities for secondary petrochemicals was not successful.

Question 5. Will the outcome of the July 2000 presidential election be important in terms of the speed or degree of openness to additional trade and investment liberalization? What opinions regarding NAFTA have the major Mexican presidential candidates expressed?

Answer. Increasing democratization in Mexico virtually guarantees growing public policy debate on all issues, including trade and investment liberalization. The two front runners in the presidential campaign are both committed to NAFTA and to continued trade and investment liberalization, but either would likely be more obliged than previous presidents to develop support for their proposals in the Mexican Congress and with the public.

Question 6. What is the status of labor rights and human rights in Mexico? Do independent labor unions exist in Mexico?

Answer. The Labor Rights section of the 1999 Human Rights Report (sent to Congress in February of 2000) provides an extensive profile of the current situation in Mexico. In addition, the 1999 Annual Labor Trends Report on Mexico (2000 edition in progress), provides a detailed discussion of the current labor situation. Yes, there are independent unions in Mexico, in fact their principal federation, the National Union of Workers (UNT), claims 1.5 million members. The AFL-CIO maintains an office of its American Center for International Labor Solidarity (ACILS) in Mexico, and has signed cooperative agreements with the UNT, as well as with the largest confederation of traditional unions (CTM).

Mexico has a vigorous independent trade union sector. The Mexican Constitution and Federal Labor Law guarantee the rights of freedom of association and collective bargaining. Around 25 percent of the total workforce and 50 percent of the formal sector is unionized. Mexico has ratified most International Labor Organization conventions. Some concerns have arisen in recent years over the application of labor legislation in specific cases. Such concerns have been and are continuing to be addressed through the submission process of the North American Agreement on Labor Cooperation (NAALC).

Mexico is not among the major rights violators, and guarantees, in theory and practice, its citizens many fundamental rights. However, as the State Department's 1999 Country Report on Human Rights indicates, serious human rights violations do occur in Mexico.

Question 7. How effective is the Commission for Labor Cooperation (CLC) under NAFTA as a mechanism for channeling complaints, encouraging dialogue and consultation, and promoting improvement in these areas?

Answer. The North American Agreement on Labor Cooperation (NAALC), the labor supplemental agreement to NAFTA, allows us to advance labor issues and monitor enforcement of labor laws in our trading partners. It also creates a forum for airing public concerns about labor law enforcement directly with governments. Twenty-two submissions have been filed under the NAALC, several leading to ministerial consultations and adoption of work programs to address concerns raised in the submissions. In 1997, for example, submissions prompted ministerial consultations on freedom of association and safety and health issues. Earlier consultations have led to a trilateral conference on the labor rights of women in North America, and a work program of trilateral seminars on union registration, certification, elections, recognition and union democracy.

And of course, NAFTA has been instrumental in creating new higher-paying jobs, not just in the United States, but also in Canada and Mexico. This has led to increased demand for U.S. products and services from consumers throughout North America.

Question 8. Do you believe the existence of NAFTA contributes to a reduction in illegal immigration from Mexico to the United States? What do the data show?

Answer. We believe more liberal trading arrangements between the United States and Mexico, i.e. NAFTA, have had a dampening effect on migration flows from Mexico to the United States. But NAFTA is only one of many factors influencing overall migrant flows. NAFTA's effect may well be outweighed by other factors, such as the

general state of the Mexican economy. In fact, this seems to have been the case when Mexico experienced the "Peso Crisis." According to the INS, apprehensions of Mexicans attempting to enter the United States without inspection increased from 1.26 million in FY93 to 1.46 million in FY97 (the last year for which we have complete data). These figures include some individuals apprehended more than once. We hope that this figure declined in 1999 as the Mexican economy strengthened.

Question 9. How would you assess U.S.-Mexico cooperation on border and environmental issues?

Answer. The NAFTA side agreement on environmental protection has been quite effective. The North American Agreement on Environmental Cooperation (NAAEC) appropriately emphasizes cooperative efforts among the Parties. It also promotes, and ensures, adequate enforcement of environmental laws in the United States, Canada, and Mexico. We must keep in mind that this is an unprecedented agreement and incorporates a far reaching range of constructive efforts to maintain and improve environmental protection. We did not expect to be in a position to argue that this agreement would resolve every environmental concern at the border or in North America, but we did expect to make progress—and we have.

The growing success of the bilateral NAFTA side agreement which, is addressing environmental infrastructure needs along the U.S.-Mexico border is noteworthy. The institutions created by this agreement (BECC and NADBank) are bringing a variety of resources to bear upon the water, wastewater, and solidwaste needs of the rapidly-growing population in the border region. There are now 36 approved projects in various stages of development, more than have ever before been underway in this region.

Question 10. What is your assessment of Mexico's performance on environmental issues?

Answer. As indicated in the previous question, Mexico has been working closely with us in a number of bilateral fora to advance our mutual interest in ensuring adequate protection for our natural resources. In this bilateral context—as well as by means of its own domestic policies—Mexico has been making significant progress on environmental issues. Naturally, a great deal still remains to be done, but we expect that progress will continue, especially based on the general link between the level of economic development and environmental consciousness.

Question 11. In your opinion, how have the Central American and Caribbean countries been affected by NAFTA?

Answer. Since the signing of the NAFTA, countries participating in the Caribbean Basin Initiative (CBI), which includes all the Caribbean and Central American countries except Cuba, have claimed that Mexico gained a significant trade advantage. Mexico's access to the U.S. market, for which they made significant concessions in the NAFTA, is superior in certain sectors to that enjoyed by the CBI countries. The CBI countries point to Mexico's large gain in market share for apparel imported into the U.S. as proof that NAFTA altered the trade terms. However, because exports from several of the CBI countries continued to grow, albeit at a slower pace, and because the duty rate is only one of many elements considered by apparel manufacturers, it is difficult to estimate the impact NAFTA had on CBI exports.

Question 12. Do you believe that participation in an FTAA agreement should be limited to countries that have and maintain democratically-elected governments? How might these conditions be taken into account in such a regional trade arrangement?

Answer. The strengthening of democracy is at the core of the Summit of the Americas, and the FTAA is a fundamental product of the Summit process. The Plan of Action developed at the Miami Summit in 1994 states that "the strengthening, effective exercise and consolidation of democracy constitute the central political priority of the Americas." By instilling the principles of transparency and the rule of law into commercial relations throughout the hemisphere, the FTAA is helping to strengthen democracy. Participation in the Summit of the Americas process is limited to the 34 democratically elected governments in the hemisphere.

Question 13. Do you believe that participation in an FTAA agreement should be limited to countries that are taking substantial steps to combat corruption? How might these conditions be taken into account in such a regional trade arrangement?

Answer. Corruption is a severe and debilitating reality in many Latin American countries, and the Administration has been working actively to address the issue. One of the fundamental goals of the Summit of the Americas is the elimination of corruption. The Declaration of Principles of the Summit of the Americas states that "Effective democracy requires a comprehensive attack on corruption as a factor of

social disintegration and distortion of the economic system that undermines the legitimacy of political institutions.” The Plan of Action developed at the 1994 Miami Summit requires that the governments will, among other goals, strengthen investigative and enforcement capacity with respect to acts of corruption, develop mechanisms of cooperation in the judicial and banking areas, and develop a hemispheric approach to corruption.

The countries participating in the FTAA have been actively involved in many multilateral anti-corruption efforts, such as the Inter-American Convention Against Corruption. To date 26 countries in this hemisphere have signed that Convention and 18 have ratified it. Argentina, Brazil and Chile have signed the OECD Bribery Convention, agreeing to make it a crime to bribe foreign public officials for business advantage.

Market oriented policies promote transparency, competition and rules based behavior. The Administration is further assisting these countries to eliminate corruption by providing judicial reform assistance, insisting that the countries comply with their international obligations, and encouraging them to become a party of the Inter-American Convention Against Corruption. Agreements such as the FTAA will help to drive out corruption by creating a trading system based on transparency and the rule of law.

Senator CHAFEE. We are pleased to convene the second panel of the Honorable Ted McNamara, Ms. Delal Baer, and Mr. Michael Woody from the great State of Rhode Island. The Honorable Ted McNamara, would you like to start off?

**STATEMENT OF HON. THOMAS E. (TED) MCNAMARA,
PRESIDENT, COUNCIL OF THE AMERICAS, NEW YORK, NY**

Ambassador MCNAMARA Thank you, Senator. Good morning, Mr. Chairman and members of the subcommittee. It is a great pleasure for me as the president and CEO of the Council of the Americas to appear before this committee and to have the opportunity to testify today. I would like to summarize in about 5 or so minutes my statement, but if I could have the full statement printed in the record, I would appreciate that.

Senator CHAFEE. Please.

Ambassador MCNAMARA. The Council of the Americas is the leading business organization which is dedicated to promoting hemispheric economic integration, free trade, investment, open markets, and the rule of law throughout this hemisphere. The membership includes major U.S. multinational companies, small, medium, and large sized companies with interests and investments in Latin America. We were founded 35 years ago in the belief that the future of the hemisphere depends upon promoting democracy and open market economic principles.

Mr. Chairman, you have aptly titled this hearing “Lessons of NAFTA for U.S. Relations with the Americas.” NAFTA has been a tremendous success for the United States and has had much broader and more positive impact than most Americans realize. We all remember the NAFTA debates of the early 1990’s. There were incredibly alarmist statements about how this agreement would destroy the U.S. economy and ruin the job market. The “great sucking sound” was the cry, supposedly draining investments and jobs from the high-wage United States to low-wage Mexico.

By now it is obvious that that did not happen. The United States has had the longest peacetime boom in history. Recent GDP growth is strong. Unemployment is at its lowest level in 30 years, and inflation is under control. Since 1993, trade among United States, Canada and Mexico is up more than 86 percent. U.S. merchandise

exports to these two NAFTA partners are up more than 75 percent. And those exports to those two countries have supported an estimated 2.6 million jobs in 1998. This is 600,000 more jobs than were supported by U.S. exports to Canada and Mexico just before NAFTA.

I could go on with more statistics, but the point I think is clear: There is no sucking sound here. NAFTA, despite some problems, has indisputably benefited the United States. This is the first of many lessons that I think NAFTA has taught us.

I want to stress, however, that NAFTA's benefits transcend economics. In Mexico, NAFTA has given a new energy and a new confidence to the entire country. This attitude spills over into Mexican domestic affairs where a more confident Mexico is addressing broader social issues and is moving toward modern democracy, in part because of the underlying security and stability that NAFTA is providing the country.

The traditional Mexican anti-gringo ideology is giving way to a more friendly and cooperative attitude. The new Mexico sees it in its national interest to cooperate with us, whereas the old Mexico saw its role in world affairs as opposing the United States to demonstrate Mexican nationalism. The new, modern Mexico understands that its future depends on three healthy nations in North America and that cooperation can produce a win-win-win situation. And believe me, after many years, more than 30 years visiting Mexico and working in Mexico, this is revolutionary thinking in Mexico.

It is clear that without NAFTA, Mexico would not have advanced as it has. President Zedillo has opened up economic and political systems to competition. We have political pluralism, true political pluralism, in Mexico for the first time. The ruling party has lost control of the Mexican Chamber of Deputies for the first time in 70 years. The opposition parties now govern in many states and municipalities, including the capital state and capital city of Mexico, and an opposition candidate could win the election to the Presidency in July. This pluralism is a very positive development.

Without NAFTA, Mexico's traditional social and political elites would have little reason to change, and these modernizing developments would not have been what they are today. They are the unforeseen benefits of the economic modernization. Clearly Mexico still has a long way to go, but NAFTA has been a good stimulus for moving it in the right direction.

Of course, there are tensions and distortions that accompany any change, and these are not missing in the NAFTA phenomenon. Mexico still suffers from the old problems of grossly inequitable distribution of wealth. Northern Mexico has benefited more than southern Mexico from the NAFTA agreement, and the gap between rich and poor has widened in Mexico, as it has elsewhere in the hemisphere, including the United States. Education and health reforms have not kept up with some of the other reforms, and corruption and lack of transparency are still a plague.

Obviously, a free trade agreement is not panacea for Mexican or Latin American ills, but it is an essential part of any program whose goals are democracy, open economic systems, and social justice.

So, I offer a second lesson to be learned from NAFTA, namely, that a dramatically new economic approach to our neighbors may produce unexpected benefits for us in the political and social areas. This can happen because economic modernization does not take place in a vacuum. We should be alert to this, and we ought to foster it.

The Free Trade Area of the Americas, the FTAA, Mr. Chairman, is important to us and we need to negotiate that. If we cannot negotiate with our neighbors in this hemisphere, neighbors who are asking us to lead them to a new level of economic performance, then how can we hope to be a leader of world trade and economic development elsewhere in the world?

The Free Trade Area of the Americas is a unique opportunity. It represents a potential market of 800 million people. The FTAA promises more than just economic gains. The Council of the Americas believes that the FTAA represents a great opportunity for growth and development in the region. Trade leads to prosperity and improves the ability to address broader social and political agendas, as I have just mentioned in the case of the NAFTA.

Mr. Chairman, I believe that the FTAA is an opportunity that should not be missed. But we are missing it. Through inattention, misinformation, and fear, we are not doing all we can to advance that agreement. The leadership that we need in the executive branch and in the Congress is lacking. Our leaders have not told the American people of the importance of continued free trade to our economic well-being. Let me cite some of the activity that we are missing out on by our mistaken policies of neglect and indifference.

There are currently over 20 major trade agreements in place in the Americas. The United States is a party to one of these, NAFTA. Almost all of these agreements have been entered into force in the 1990's and they are establishing a web of preferential trade arrangements without the participation of the United States. This is putting the U.S. economy, U.S. workers, and U.S. industry at a disadvantage.

Because the U.S. has failed to negotiate, for example, Chile's inclusion into NAFTA, our NAFTA partners, Mexico and Canada, have gone ahead and signed bilateral free trade agreements with Chile. So, that is great for Canada and Mexico, for their workers, and for their industries, but it is bad news for U.S. industries and U.S. workers.

This brings me to the third lesson of NAFTA. Once the enormous advantages of free trade are demonstrated to our neighbors, they will continue to move down that road with or without us. If we sit on our hands, we are sitting on our hands at our own risk. Our neighbors and NAFTA partners are not idle. They are improving their economic prospects by forging preferential trade agreements that exclude us. While we are foolishly distracted by the strident shouts of the neo-protectionists, our economic interests and our advantages are suffering. Our workers are suffering and our industries are suffering.

This situation highlights yet another lesson, albeit not a NAFTA lesson; namely, that our neighbors are moving in different directions. Consider the example of Mercosur made up of Brazil, Argen-

tina, Uruguay, Paraguay, and now as an associate member, Chile. Its strength, reach, and importance in South America is growing. But Mercosur is not a free trade zone. Its goals are not the same as NAFTA and the FTAA, although they are not inimicable to that. Mercosur is a customs union, aiming at free trade inside the union and a common tariff for those outside. Its objective is to move to a common market with a free movement of labor, coordinated macroeconomic policies and possibly even a common currency within that union. Only secondarily and only after the union is established can we expect Brazil and its partners to move to the negotiating table with the United States to negotiate free trade.

I know I do not need to detail to this committee the history of the disputes and tensions in Europe in the 1950's and 1960's when the European Free Trade Area competed with the European Common Market for the support of European states. The situation is not identical. History does not repeat itself. There are, however, similarities that deserve our attention, but as I have noted above, we are not paying attention. We are not involved.

Mercosur has made Chile and Bolivia associate members and it is now consulting with the Andean community about a trade agreement that could cover most of South America. South American heads of state will meet in Brazil in August, at Brazil's initiative, at a summit that could lay the groundwork for a unified South American trade bloc led by Brazil and Mercosur.

Our inaction on the FTAA encourages these regional arrangements and keeps the United States on the outside. Lack of progress on FTAA will impact the United States most of all because our trade barriers are much, much lower than those of our neighbors, and it is to our advantage to get the others' down. These regional customs blocs tend to be exclusive, not inclusive, such as the free trade zone we are talking about which is inclusive. And as such, these regional blocs will hinder hemispheric-wide integration.

So, my last point is not to cite another lesson of NAFTA. Rather, it is to point out that no one else will teach us the lessons of NAFTA. They are there for us to see if we are disposed to see them. We displayed nonpartisan leadership in negotiating, ratifying, and implementing NAFTA. And now we need to show that same leadership to shape the future trade agenda of this hemisphere. If we do not do so, that agenda will be shaped by others. And without us, it will not be shaped to our advantage. The United States needs to get working on this because, in fact, that agenda is already being shaped. This is already happening.

The FTAA can reinforce many of the positive trends and democratize various parts of the hemisphere that need strengthening of democracy, open economic systems that need opening, and lead to greater social justice, just as NAFTA has done with respect to Mexico. We are counting on the FTAA negotiations to start a movement in the direction very similar to what has happened in the case of NAFTA. Fast track is needed to get that negotiation under way, and the major issues on the table need to be addressed now. I propose that we seize the moment and move forward.

Thank you very much, Mr. Chairman.

[The prepared statement of Ambassador McNamara follows:]

PREPARED STATEMENT OF AMBASSADOR THOMAS E. MCNAMARA

Good morning, Mr. Chairman and Members of the Subcommittee. I am Ted McNamara, President and CEO of the Council of the Americas, and I appreciate the opportunity to testify before you today.

The Council is the leading business organization dedicated to promoting hemispheric economic integration, free trade and investment, open markets, and the rule of law throughout the Western Hemisphere. The Council's membership includes major U.S. multinational companies with interests in Latin America. Members represent a variety of sectors: manufacturing, energy, transportation, technology, communications, banking, financial services, and natural resources, among others.

The Council was founded thirty-five years ago on the belief that the future of the hemisphere depends on promoting democracy and open market economic principles. Expanding hemispheric cooperation through increased trade and investment benefits all nations of the hemisphere, including the United States, where these are central to our growth and economic health.

Mr. Chairman, you have aptly titled this hearing, "Lessons of NAFTA for U.S. Relations with the Americas." NAFTA has been a tremendous success for the United States and has had a much broader, positive impact than most Americans realize. We all remember the NAFTA debate of the early 1990s. There were incredibly alarmist statements about how this agreement would destroy the U.S. economy and ruin the job market. The "great sucking sound" was the cry, supposedly draining investments and jobs from the high-wage United States to low-wage Mexico.

By now it is obvious that this did not happen. The United States has had the longest peacetime boom in history; real GDP growth is strong; unemployment is at its lowest level in 30 years; and inflation is under control. Since 1993, trade among the U.S., Canada and Mexico is up more than 85%. U.S. merchandise exports to our NAFTA partners are up more than 75%. And those exports to Canada and Mexico supported an estimated 2.6 million jobs in 1998. This is 600,000 more jobs than were supported by U.S. exports to Canada and Mexico in 1993. I could go on with more statistics, but the point is clear. There is no sucking sound here; NAFTA, despite some problems, has indisputably benefited the United States. This is the first of the many "lessons" NAFTA has taught us.

I want to stress, however, that NAFTA's benefits transcend economics. The agreement has also enhanced our relationships with our neighbors in many other ways and on many levels. In Mexico, NAFTA has given new energy and confidence to the entire country. This attitude spills over into Mexican domestic affairs where a more confident Mexico is addressing broader social issues and is moving towards modern democracy, in part because of the underlying stability NAFTA provides.

The traditional, Mexican, anti-gringo ideology is giving way to a more friendly and cooperative attitude. The new Mexico sees it in its national interests to cooperate with us, whereas the old Mexico saw its role in world affairs as opposing the U.S. to demonstrate Mexican nationalism. The new, modern Mexico understands that its future depends on three healthy nations in North America, and that cooperation can produce a win-win-win situation. This is revolutionary new thinking for Mexico.

Since 1994, President Ernesto Zedillo has opened the economic and political system to competition, fostered respect for the rule of law, and decentralized power. Political pluralism is growing. The Institutional Revolutionary Party (PRI), lost control of the Mexican Chamber of Deputies in 1997 for the first time in almost 70 years. Moreover, the opposition National Action Party (PAN) and Party of the Democratic Revolution (PRD) now govern a number of states and municipalities, including Mexico City, and an opposition candidate could win the presidency next July. This emergence of political pluralism after 70 years of one-party rule is a very positive development.

It is clear that, without NAFTA, Mexico's traditional social and political elites would have had little reason for change, and that these modernizing developments would not have been what they are today. They are the unforeseen benefits of the economic modernization. Clearly, Mexico still has a long way to go, but the process has started, and NAFTA has been an important stimulus for it.

There are, of course, tensions and distortions that accompany any change, and these are not missing in the NAFTA phenomenon. Mexico still suffers from the old problem of grossly inequitable distribution of the wealth recently generated. Geographically, northern Mexico has benefited more than southern Mexico. The gap between rich and poor has widened in Mexico, as it has throughout the hemisphere (including in the United States). Broad based educational and health-care reforms have not kept up with other reforms. Old style, pervasive corruption and lack of transparency are still a plague on Mexico.

Obviously, free trade is not a panacea for Mexico's or Latin America's ills, but it is an essential part of any program whose goals are democracy, open economic systems, and social justice.

So I offer a second lesson to be learned from NAFTA, namely, that a dramatically new economic approach to our neighbors may produce unexpected benefits for us in political and social areas. This can happen because economic modernization does not take place in a vacuum and repercussions can favor increased democracy, open economic systems, and social justice. We should be alert to this, and foster it.

It is important that we understand how critical NAFTA has been to the three signatory states, so that the United States can commit to pursuing what should be our broader objective in the hemisphere, a Free Trade Area of the Americas (FTAA). For in the end, Mr. Chairman, if we cannot negotiate with our neighbors in the hemisphere, neighbors who are asking us to lead this hemisphere to a new level of economic performance, how can we hope to be a world leader of trade and economic development?

The Free Trade Area of the Americas is a unique opportunity for the United States and the hemisphere. The FTAA represents a potential market of 800 million people to whom U.S. producers can sell goods and services. And, similar to the broad benefits of NAFTA, the FTAA promises more than just economic gains. The Council believes that the FTAA represents a great opportunity for growth and development in the region. Trade leads to prosperity and improves the ability to address broader social and political agendas.

Mr. Chairman, I believe that the FTAA is an opportunity that should not be missed. But we are missing it. Through inattention, misinformation, and fear, we are not doing all we can to advance the agreement. The leadership that we need in the executive branch and the Congress is lacking. Our leaders have not convinced the American people of the importance of continued free trade to our economic well-being. Let me cite some of the activity that we are missing out on by our mistaken policies of neglect and indifference.

There are currently over 20 major trade agreements in place in the Americas. The United States is a party to only one of these, NAFTA. Almost all of these agreements have entered into force in the 1990s, establishing a web of preferential trade arrangements without the participation of the United States. This is putting the U.S. economy, U.S. workers, and U.S. companies at a disadvantage. Let me cite just one example, that of Chile. Because the U.S. has failed to negotiate Chile's inclusion into NAFTA, Canada and Mexico have each signed bilateral trade agreements with Chile. As a result, Canadian and Mexican products enter Chile duty-free while U.S. products pay duties. This is great news for Canadian and Mexican companies and workers, but it is bad news for U.S. companies and workers.

This brings me to the third lesson of NAFTA. Once the enormous advantages of free trade are demonstrated to our neighbors, they will continue to move down that road, with or without us. We sit on our hands at our own risk. Our neighbors and NAFTA partners are not idle; they are improving their economic prospects by forging preferential trade agreements that exclude us. While we are foolishly distracted by the strident shouts of the neo-protectionists, our economic interests and advantages are suffering. Our workers are losing jobs. And our industry is disadvantaged.

This situation highlights yet another lesson, albeit not a NAFTA lesson. Namely, not all our neighbors are moving in the same direction. Consider Mercosur, the largest trade grouping in Latin America. Made up of Brazil, Argentina, Uruguay and Paraguay, its strength, reach and importance in South America is growing. Mercosur is not a free trade zone. Its goals are not the same as NAFTA and the FTAA. Mercosur is a customs union, aiming at free trade inside the union and a common tariff for those outside. Its objective is to move to a common market with free movement of labor and coordinated macroeconomic policies, possibly even a common currency, within that union. Only secondarily and only after the union is secure can we expect Brazil to lead its partners to the trade negotiation table with the United States.

I know I need not detail to this committee the history of the disputes and tensions between European states in the 1950s and 1960s when the EFTA free trade zone and the European common market competed for the support of European states. The situation is not identical; history does not repeat itself. There are, however, similarities that deserve our attention. But, as I have noted above, we are not paying attention. We are not involved.

Mercosur has made Chile and Bolivia associate members and is consulting with the Andean Community, Latin America's second largest trade group. What they are talking about is a trade agreement that could cover most of South America. As part of this strategy and at Brazil's initiative, South American heads of state will meet

in Brazil this August in a summit that could lay the groundwork for a unified South American trade bloc, led by Brazil and Mercosur.

Our inaction on the FTAA encourages these regional arrangements and keeps the United States on the outside. Lack of progress on the FTAA will impact the United States most of all, because our trade barriers are much, much lower than those of our neighbors. But our continued economic strength depends greatly on our ability to bargain for reduced trade barriers that now protect other markets.

There is a school of thought that regional trading blocks serve as stepping-stones to broader free trade agreements. However, the history of the "inner six," and the "outer seven" in Europe suggests that once nations go down the road to regional economic unions, they are reluctant to abolish them and to enter free trade associations. The regional blocs tend to be exclusive, not inclusive, and as such they will hinder hemispheric-wide integration.

As I said, Mercosur's first priority is not to foster free trade beyond the borders of its members. For example, as Brazilian and Argentine private enterprises try to compete internationally, some sectors are calling for government support through subsidies (a la Europe). Such actions warrant concern because they threaten negotiations seeking to open borders. Also, considering Mercosur's unified economic rules and regulations and common external tariff, a customs union with a combined barrier will certainly be harder for outsiders to penetrate. Mercosur countries can be sure of open access to the U.S. markets, while they negotiate separate arrangements with others. They are doing so with the European Union and with our neighbors.

So, my last point is not to cite another lesson of NAFTA. Rather, it is to point out that no one else will teach us the lessons of NAFTA. They are there for us to see, if we are disposed to see them. We displayed non-partisan leadership in negotiating, ratifying, and implementing NAFTA. We must now show that same leadership to shape the future trade agenda of the hemisphere. If we do not do so, that agenda will be shaped by others without us, and it will not be our agenda. Indeed, that is already happening.

Mr. Chairman, our efforts to reduce trade barriers with Canada and Mexico through NAFTA have greatly benefited North America. The U.S. economy has boomed and we have witnessed supplementary benefits in all three countries. The FTAA presents an opportunity to link the 34 democracies of the Western Hemisphere by broadening and deepening relations in ways that benefit the U.S. economy and its citizens. The FTAA can reinforce many of the positive trends of democratization, open economic systems, and greater social justice, which are occurring throughout the hemisphere. We are approaching a critical time in the FTAA negotiations. Fast track will be needed to negotiate the major issues that are now on the table. Let us seize the moment.

Thank you very much.

Senator CHAFEE. Thank you. We hear your call to action and appreciate it.

I would like to welcome Senator Dodd.

Senator DODD. Thank you, Mr. Chairman. I know we have got the other two witnesses here and I will be brief with some opening comments. I apologize for missing the first panel. Buddy MacKay I have a high regard and respect for, and I am sorry I missed his testimony. I am anxious to hear our other two witnesses.

But let me just begin by, first of all, commending you, Mr. Chairman. This is a good hearing to hold. There are a lot of other issues going on that sort of grab headlines when it comes to the Americas in recent days that have a certain amount of appeal for obvious reasons. This hearing ought to be packed. You do not get a television camera here, but this is the kind of issue that has a far greater impact on our relations in the world than these other issues we are hearing about from day to day. But it is hard to get people to pay attention to something as important as this, unfortunately.

So, I am very grateful to you for doing this. This is a good leadership to focus on this issue and to invite competent people who are knowledgeable, as Buddy MacKay is and obviously our panelists

here. Ted, I appreciate your testimony already. I think you have said some very important things, and I could see Buddy MacKay's head nodding in agreement in the back of you here, so you have no disagreement from us on these points.

Let me just make a couple of comments, if I could, Mr. Chairman, about this. I happen to be one who strongly supported NAFTA. I thought it was a very good idea. I have always said I do not think President Clinton probably could have signed NAFTA and I do not think President Bush probably could have passed it. It really was a combination of the Bush administration negotiating the agreement and the arrival of the Clinton administration which made it possible to pass it in the Congress. So, you had a confluence of forces that produced the results that we saw.

It really did raise high hopes that we might start looking at the Americas as a way of really expanding trading opportunities for this country and raising the economic well-being of people in this hemisphere. It has been pointed out over and over again we have for the first time virtually in every country with the exception of one, democratic governments. Now, some are a little shakier than others, and problems in Ecuador recently have highlighted some of the problems, but nonetheless, democratic governments by and large. But they do not last forever, and they only last because you have got economic underpinnings that can produce the results that people will see that will cause them to be more supportive of democratic institutions.

So, I think it is critically important that we try to move on some of these issues. But you have already indicated, Mr. McNamara, how difficult it is. We are making a huge mistake in my view because we are going to get left out. This is potentially a billion people in this hemisphere. Very shortly there will be a billion consumers from the Yukon to Tierra del Fuego. So, from an enlightened self-interest standpoint, it makes sense for us. We are talking about normal trade relations with China. I think that has value, but in this hemisphere, there are some real opportunities.

We are seeing in just a few short years some of the results in terms of what has occurred here, just how levels have gone up to \$197 billion last year in trade with Mexico. That is a 50 percent increase in 3 years. A 50 percent increase in 3 years.

Now, I know the good economy has had something to do with that, but it is not only that. It has been because of eliminating tariffs. What were they? Forty percent in the past or 45 percent, and that was what we paid as a tax on our goods to be sold in Mexico. That is gone today, and so we are seeing jobs increased.

In my State alone, in Connecticut, Connecticut's exports to Mexico have increased 62 percent to some \$544 million. I suppose in terms of billions, that may not sound like much. But that \$544 million are jobs in my State. That means people are producing products and selling in a market that they could not sell in or had a very difficult time selling in before. I know the same is true in Rhode Island. This is not about Texas and New Mexico and Arizona. All across the country people are benefiting from this.

So, the evidence is clear. It seems to me we ought to be more aggressive in pursuing these agreements. I am saddened that we are

not. It is mortifying what we have done to Chile in my view. With all the promises we have made, we still cannot seem to get that.

We are now going to have a Caribbean Basin Initiative which I hope we get done here on the textile stuff, which I think can be tremendously helpful. In my view we ought to make Colombia, Venezuela, and Ecuador a part of that right away as well. Do you want to talk about making a difference in Colombia? I support the Colombia Plan, but provide some real economic opportunities for these people. If we are going to try and stop them from producing coca leaves and heroin and give them a job in the textile area, for instance, that is a real long-term economic advantage in terms of our battling the narcotraffickers in Colombia. So, I am hopeful still that on those agreements we might be able to get some support to include those three countries as part of the CBI, which I am hopeful we are going to pass this year.

But again, Mr. Chairman, I am grateful to you for hosting this hearing. It is a very important subject matter.

Mr. McNamara, Ted, I want to thank you for your testimony. It is excellent testimony, and we will probably put it in the record or something, not only here but maybe on the floor as well and try and raise the level of awareness of what is going on.

Ambassador MCNAMARA. Thank you, Senator.

Senator CHAFEE. Thank you, Senator, very much also for your interest in this subject for many years.

I now would like to welcome Ms. Delal Baer, the chair of the Mexico Project, Center for Strategic and International Studies. A warm welcome.

**STATEMENT OF M. DELAL BAER, CHAIR, MEXICO PROJECT,
CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES,
WASHINGTON, DC**

Ms. BAER. Thank you, Mr. Chairman. Thank you, members of the subcommittee. I thank you for asking me to testify before you here today and for your creativity in choosing to focus on the intangibles of NAFTA. You have asked me to focus on the impact of NAFTA on bilateral relations with Mexico. It is an angle of NAFTA that is not often looked at, and I thank you for your creative take on this issue.

Before I comment on the noneconomic aspects of NAFTA, let me also chime in and make a few comments on the economic benefits of NAFTA.

Two-way trade has almost doubled since NAFTA has gone into effect in 1994 when two-way trade was only \$100 billion. Today it is close to \$200 billion. Of course, that touches every State, including Rhode Island. I took the time to look up the figures on the State of Rhode Island, and I found that in fact Rhode Island's exports to Mexico have jumped from roughly \$15 million a year to around \$90 million a year in the period from 1993 to 1999. And the most dramatic growth was being led by the primary metal industry, and this is extremely dramatic where exports jumped from \$6.4 million in 1993 to \$67.7 million in 1999. So, I think there are stories like this. I am sure we will hear some more along these lines in just a moment, and these stories are replicated across the United States.

I too would congratulate your superb testimony and add only one point before I move on to the noneconomic issues, and that is in order for us to be able to take advantage of these new opportunities in the hemisphere and move forward with the vision that we all have described here, I believe that it is essential at some point for the United States to take up once again the question of fast track authority for the President to negotiate free trade agreements in this hemisphere. Without it, it is extremely difficult to move forward on this agenda. We have all spoken about the urgent need to move forward on this agenda, but no one has yet mentioned the magic words "fast track." I thought I would just throw that in at the beginning of my testimony.

It is not often that we see national cultures break out of the mold formed by centuries of history, but the passage of NAFTA has brought truly paradigmatic change in U.S.-Mexican relations. When the assumptions underlying a relationship shift away from mistrust and hostility to a focus on shared goals and values, a higher spirit animates and permeates that relationship.

Let me briefly summarize where we have been in our relations with Mexico so you can appreciate how far we have come because often we focus on our frustrations in the bilateral relationship and forget that a short time ago that relationship was much more complex and conflictual than it is today.

For many decades, the United States had a stunted and quasi-adversarial relationship with our nearest neighbor, Mexico. Five hundred years of history had convinced Mexico that little good would come outside its borders. This reticence, vis-a-vis the outside world, springs from a sense of vulnerability dating from the Spanish Conquest, reinforced by 19th century French installation of a Hapsburg emperor in Mexico, and then later U.S. conquest of a large portion of what was then Mexican territory. It is not surprising then that for many years Mexico viewed the United States as its greatest potential threat, its greatest potential enemy, an attitude that was summed up in the famous saying, "Poor Mexico, so far from God and so close to the United States." Of course, the United States from its lofty perch of superpower status, did not always do a great deal to alleviate the concerns of our Mexican neighbors, and our attitudes at times ranged from benign neglect to arrogant unilateralism.

This could not fail to affect every aspect of bilateral relations. The principal goal of Mexican diplomacy for much of the 20th century was to keep the United States at arm's length and to demonstrate its independence by opposing U.S. objectives. For example, Mexico spent much of the cold war period making speeches denouncing American intervention and defending Soviet-sponsored guerrilla movements in the name of defending national sovereignty. What cooperation took place between our two countries was hidden as if it were something shameful. Common problems were not tackled in an open, joint spirit of friendly cooperation. Rather, meetings with our Mexican friends were laden with a thousand reasons why our two countries could not cooperate, spiced with history lessons reminding the United States of its perfidy. Mexico's anti-American dogma defined virtually all cooperation as a form of capitulation.

As a scholar, not as a government official, I also spent my share of hours listening to history lessons delivered to me by my friends across the border. Only recently with NAFTA has Mexico begun to look toward the future and bury the historical axe and seek historic reconciliation with the United States. Only with NAFTA has Mexico begun to revamp its formerly insular and defensive stance vis-a-vis the outside world. Only recently with NAFTA has the United States begun to view Mexico with newfound interest and with respect. And these implications extend far beyond the immediacy of commerce.

NAFTA changed the fundamental cost-benefit calculations of bilateral relations. For the first time, Mexico began to see its location next to the largest market in the world as more of an opportunity than as a problem. And the United States began to see Mexico as a commercial and investment opportunity rather than the sole source of immigration and drug problems. The dynamic, the fundamental motor of U.S.-Mexican relations shifted from a zero sum outlook to a win-win outlook. And that is of fundamental importance.

NAFTA also I believe has contributed to a healthy convergence of basic values between the United States and Mexico regarding free markets and democracy, and I believe that this convergence of values is a driving force in the betterment of bilateral relations.

NAFTA consolidated Mexico's commitment to free markets, a precondition to democracy. This is not an insignificant point. We tend to forget that Mexico was home to the first social revolution of the 20th century in 1910 and that the Institutional Revolutionary Party, the PRI, was a product of that revolution. For much of the 20th century, Mexico had a closed economy, had a mixed economy with a marked tendency toward excesses of economic and political statism. NAFTA anchored Mexico more firmly in the free market camp, and that is of historic importance.

NAFTA has also been a force for democracy in Mexico. NAFTA reinforced the dismantling of Mexico's statist economy, which was essential to undermining the economic basis of Mexican authoritarianism. If the state owns fewer industries, the state has fewer patronage resources to use to control its electorate and its potential political allies. This frees up civil society in a way that we could hardly have anticipated before NAFTA's implementation.

NAFTA also has contributed to greater decentralization of economic and political power, as Mexican states attempt to capture NAFTA-related investment. Mexican political and human rights practices came under greater scrutiny as a result of the political battle to pass NAFTA in the United States, and I believe that scrutiny was healthy. The signs of greater pluralism are everywhere to see. In 1991, the ruling PRI controlled 320 seats in Congress compared to 239 seats in 1997, losing its congressional majority for the first time in decades. Opposition candidates have a greater chance to win Mexico's year 2000 Presidential elections than perhaps ever before. I think there are very few who would argue today that Mexico is less democratic after NAFTA than it was before NAFTA. Yet, during the NAFTA debate, there were many voices who argued that the passage of NAFTA would reinforce the control of the PRI

and would reinforce authoritarianism in Mexico. We have seen that that is simply not the case.

As our values converge, so do our foreign policy objectives. A lot of folk in this town remember the days when Mexico's United Nations voting record coincided around 98 percent of the time with the then Soviet Union. Mexico would vote to defend Cuba's abysmal human rights record from scrutiny in the United Nations, for example. Today, Mexico abstains from supporting the Cuban position and accompanies that abstention with a call for free elections in Cuba. After years of championing the cause of guerrilla movements in Central America, Mexico played a key role in brokering the peace in Central America during the 1990's. These changes may have occurred because Mexico reasoned that it was not worth sacrificing the economic benefits of U.S. goodwill by deliberately alienating the United States in international diplomatic venues. But I would prefer to believe that some of this harmonization of our foreign policy goals is a result of newly shared values motivating our foreign policy.

Once the historic inhibitions to cooperation were removed in trade, it became harder to justify restricting cooperation in other areas. Law enforcement is one of those areas. Mexico's interest in law enforcement cooperation with the United States has intensified in order to create a secure investment environment and to guarantee trade flows within NAFTA. NAFTA underscores the point that traditional concepts of sovereignty and anti-American nationalism are as outmoded in the face of global organized crime as they are in the economic arena. Although the results of bilateral anti-drug cooperation at times leave much to be desired, the taboos that once blocked cooperation are giving way to a more regular and normal relationship.

Mexico now speaks of our cooperative anti-drug effort as an alliance. The word is loaded with symbolic value.

The creation of a high level contact group in 1995 may not have occurred without the fundamental shift in values and attitudes that accompanied NAFTA.

It would have been taboo to openly seek and acknowledge the training of Mexican police and armed forces by U.S. counterparts in the pre-NAFTA years. Today, that training is a cooperative program that is openly acknowledged and viewed very positively on both sides of the border.

Since NAFTA's passage, bilateral relations have deepened on every imaginable level. The North American Development Bank [NADB] and the over 20 projects that are coming out on line along the border has already been mentioned in a previous testimony today.

The precursor of the High Level Contact Group was the reinvigoration of the Binational Commission meetings, which bring together the heads of our Federal agencies every year. At the Federal level, there is probably a closer working relationship between agency heads than at any other time in the 20th century. Our counterparts pick up the telephone and speak regularly and freely and openly with their counterparts. That is a fundamental advance in bilateral relations. And even in conflictual areas like migration,

high level immigration officials meet regularly as a result of something called the Puebla Process initiative.

And then there is the spawning of a greater network of ties at the grassroots level between our people, from city to city, state to state, and university to university. And I believe that these contacts are beneficial for both countries.

In sum, NAFTA has set the tone and the example for better bilateral relations, but I agree that it is not a panacea. It cannot substitute for strong political leadership and strategic vision. In some quarters, the United States has regressed to a Mexico-bashing mode, reminiscent of an earlier century. Since the passage of NAFTA, U.S. leadership has at times run away from explicit NAFTA commitments for the sake of political expediency, and I believe that that sets very dangerous precedents for the future functioning of NAFTA. Of course, some in Mexico continue to yearn for the day when national dignity required chilly relations with the United States. But my final conclusion is that the close to \$200 billion in trade that currently flows between our two countries and the ties of friendship that inevitably accompany that flow is a permanent foundation on which to build a better bilateral future.

Thank you very much.

[The prepared statement of Ms. Baer follows:]

PREPARED STATEMENT OF M. DELAL BAER

Mr. Chairman and Members of the Subcommittee:

I would like to thank you for the kind invitation to testify before you. I am grateful that you have offered this opportunity to look at the role of NAFTA in transforming U.S.-Mexico bilateral relations. It is not often that we see national cultures break out of the mold formed by centuries of history, but the passage of NAFTA has brought truly paradigmatic change in U.S.-Mexican relations. When the assumptions underlying a relationship shift away from mistrust and hostility to a focus on shared goals and values, a higher spirit animates the entire bilateral relationship.

Let me briefly summarize where we have been so that you can appreciate how far we have come. For many decades, the U.S. had a stunted and quasi-adversarial relationship with Mexico. Five hundred years of history had convinced Mexico that little good would come from outside its borders. This reticence vis a vis the outside world springs from a sense of vulnerability dating from the Spanish Conquest, reinforced by the 19th century French installation of a Hapsburg emperor and U.S. conquest of Mexican territory. Mexico viewed the U.S. as its greatest natural enemy, an attitude summed up in the famous saying, "Poor Mexico, so far from God and so close to the United States." The U.S., from its lofty perch of superpower status, did not do a great deal to alleviate Mexico's concerns. U.S. attitudes ranged from benign neglect to arrogant unilateralism.

This could not fail to affect every aspect of bilateral relations. The principal goal of Mexican diplomacy for much of the 20th century was to keep the U.S. at arm's length and to demonstrate its independence by opposing U.S. objectives. For example, Mexico spent most of the Cold War period making speeches denouncing American intervention and defending Soviet-sponsored guerrilla movements in the name of national sovereignty. What cooperation took place was hidden as if it were something shameful. Common problems were not tackled in an open, joint spirit of friendly cooperation. Rather, meetings with Mexican officials were laden with a thousand reasons why our two countries could not cooperate, spiced with history lessons reminding the U.S. of its perfidy. Mexico's anti-American dogma defined virtually all cooperation as a form of capitulation.

Only recently, with NAFTA, has Mexico begun to revamp its formerly insular and defensive stance vis a vis the outside world. Only recently, with NAFTA, has the U.S. begun to view Mexico with new-found respect and interest. The implications extend far beyond the realm of commerce.

- NAFTA changed the fundamental cost-benefit calculations of bilateral relations. For the first time, Mexico began to see its location next to the largest market in

the world as more of an opportunity than a problem. The U.S. began to see Mexico as a commercial and investment opportunity rather than solely as a source of immigration and drug problems. The dynamic of U.S.-Mexican relations shifted from a zero sum outlook to a win-win outlook.

- NAFTA has contributed to a healthy convergence of values between the U.S. and Mexico regarding free markets and democracy. I believe that this convergence is a driving force in the betterment of bilateral relations.

- NAFTA consolidated Mexico's commitment to free markets, a precondition for democracy. This is not an insignificant point. We tend to forget that Mexico was home to the first social revolution of the twentieth century in 1910, and that the Institutional Revolutionary Party (PRI) was a product of that revolution. For much of the twentieth century, Mexico had a mixed economy with a marked tendency toward excesses of economic and political statism. NAFTA anchored Mexico more firmly in the free market camp.

- NAFTA has been a force for democracy in Mexico. NAFTA reinforced the dismantling of Mexico's statist economy, which was essential to undermining the economic basis of Mexican authoritarianism. NAFTA also has contributed to greater decentralization of economic and political power, as Mexican states attempt to capture NAFTA-related investment. Mexican political and human rights practices came under greater international scrutiny as a result of the political battle to pass NAFTA in the U.S. The signs of greater pluralism are everywhere to see. In 1991, the ruling PRI controlled 320 seats in Congress compared to 239 seats in 1997, losing its congressional majority for the first time. Opposition candidates have a greater chance to win Mexico's year 2000 presidential elections than ever before.

- As our values converge, so do our foreign policy objectives. A lot of folk in this town remember the days when Mexico's United Nations voting record coincided around 98 percent of the time with the Soviet Union. Mexico would vote to defend Cuba's abysmal human rights record from scrutiny in the United Nations. Today, Mexico abstains and accompanies that abstention with a call for free elections in Cuba. After years of championing the cause of guerrilla movements in Central America, Mexico played an important role in brokering the peace in the 1990s. These changes may have occurred because Mexico reasoned that it was not worth sacrificing the economic benefits of U.S. goodwill by deliberately alienating the U.S. in international diplomatic venues. But I would like to think that some of this harmonization is a result of the newly shared values motivating our foreign policy.

- Once the historic inhibitions to cooperation were removed in trade, it became harder to justify restricting cooperation in other areas. Law enforcement is one of those areas. Mexico's interest in law enforcement cooperation has intensified in order to create a secure investment environment and to guarantee trade flows created by NAFTA. NAFTA underscores the point that traditional concepts of sovereignty and anti-American nationalism are as outmoded in the face of global organized crime as they are in the economic arena. Although the results of bilateral anti-drug cooperation leave much to be desired, the taboos that once blocked cooperation are giving way.

- Mexico, which refused to align itself with the U.S. on any issue for years, now openly describes our cooperative anti-drug program as an "alliance."

- The creation of the High Level Contact Group in 1995 may not have occurred without the fundamental shift in attitudes that accompanied NAFTA.

- It would have been taboo to openly seek and acknowledge the training of Mexican police and armed forces by U.S. counterparts in the pre-NAFTA years. Progress has been made in areas such as extradition, performance measures, training programs, etc. This process has been slow, but I am hopeful that the next two administrations that are elected in Washington and Mexico City will renew bilateral impetus.

- Since NAFTA's passage, bilateral relations have deepened on every imaginable level.

- The North American Development Bank (Nadbank), a direct creation of NAFTA, today has close to 20 projects in the pipeline or near completion in the area of strengthening water treatment infrastructure along the border.

- The precursor of the High Level Contact Group was the invigoration of the Binational Commission meetings, which bring together the heads of our agencies every year. At the federal level, there is probably a closer working relationship between agency heads than at any time in the twentieth century.

- Even in areas of conflict, like migration, high-level immigration officials meet regularly as a part of the Puebla Process initiative.

- NAFTA naturally has intensified the contact between our people at the grass-roots level, from city to city, state to state and university to university. NAFTA has spawned more contact between non-governmental organizations on both sides of the border, from unions and environmental groups to business associations. I believe that these contacts are beneficial for both countries.

NAFTA has set the tone and example for better bilateral relations, but it is not a panacea. It cannot substitute for strong political leadership and strategic vision. In some quarters, the U.S. has regressed to a "Mexico bashing" mode reminiscent of an earlier century. Since the passage of NAFTA, U.S. leadership has at times run away from NAFTA commitments for the sake of political expediency. And some in Mexico yearn for a return to the day when national dignity required chilly relations with the United States. But the close to \$200 billion in trade that currently flows across the U.S.-Mexico border, and the ties of friendship that inevitably accompany that flow, is a permanent foundation on which to build a better bilateral future.

Senator CHAFEE. Thank you very much. You are echoing certainly Mr. McNamara's comments that it is not only providing confidence in Mexico, but reducing the anti-gringo philosophy that permeated Mexico prior to NAFTA. So, in our best interest, both of those elements, confidence in Mexico and a reduction of the anti-Americanism that might have been prevalent prior to NAFTA's inception.

I would like to welcome Mr. Woody from the Quill Company in Rhode Island. Mr. Woody has been in Hong Kong in the last week and from there to Santa Fe and now in our Nation's capital. Welcome.

STATEMENT OF MICHAEL M. WOODY, VICE PRESIDENT, SALES AND MARKETING, THE QUILL COMPANY, CRANSTON, RI

Mr. WOODY. Thank you, Mr. Chairman and members of the committee, for inviting me to testify this morning.

The Quill Company is a manufacturer of pen and pencil sets for the promotional products market. We are a medium sized manufacturer, employing 95 people at our factory in Cranston, Rhode Island. Our company began as a mechanism manufacturer in 1945 and moved into finished goods by purchasing Quill in 1972. Currently 82 percent of our sales are domestic, 18 percent are international. Our two major non-domestic markets are Europe and Canada. One of our strategic goals is to increase our export business to 33 percent of total sales.

We customize our products with the buyer's corporate logo, and the pens are subsequently used for customer gifts, sales incentives, employee service awards, and a wide variety of other motivational purposes. We market through a network of 20,000 promotional products distributors who sell to the approximately 10 million U.S. businesses that are potential buyers for our products. I have been involved in marketing our products internationally for 15 years. Although I am here today to represent Quill and my own views on NAFTA, I also represent Alison, Wendy, Gabe, and 12 other co-workers whose livelihood depends on our access to international markets.

My point of view on international trade in general, and NAFTA in particular, was shaped by listening to my American competitors complain that overseas manufacturers were aggressively pursuing market share here in the States. Their typical reaction to this threat was to wring their hands and complain that government was not doing enough to prevent it. It seemed to me a feeble re-

sponse to a competitive situation. I came to the conclusion that if our company was to effectively compete against foreign manufacturers, we needed to both defend our own market and pursue market share outside the U.S.

The global pen market is fiercely competitive and writing instruments are, to the say the least, in the mature stage of the product life cycle. We face competition from countries all over the world, including China, Spain, Japan, Italy, and Germany. But we have unique product and service advantages that we believe are exportable, so we joined the global fray, targeting Europe, Canada, and Mexico as our first priorities.

In NAFTA's first year, our sales into Canada increased 20 percent. This was largely due to the 5 percent price decrease we were able to pass on to our customers. A change in distribution strategy led to a temporary decrease in sales in 1995. By 1997, we had surpassed our 1995 sales and were on our way to our goal of Canadian sales representing 10 percent of total domestic sales. Unfortunately, the relative strength of the U.S. dollar has contributed greatly to flattening our sales in Canada, but that situation will not be a permanent one. Indeed, one of the reasons we export is to diversify risk as currencies fluctuate.

Our major problem with NAFTA vis-a-vis the Canadian market is that it has not gone far enough. In the promotional products business, most orders are time sensitive, requiring that our product be in a specific place at a specific time for a specific event. However, documentation complications routinely delay our shipments into Canada. Our export documentation specialist tells me that shipping to any major European city is actually easier and often quicker than shipping into Toronto.

She targets the NAFTA certificate of origin as the main problem. Great pains are taken at the border to insure that the form is completed thoroughly and accurately. If not, the shipment will likely be delayed. Thus, a 2-day delivery to Frankfurt, London, or Madrid proceeds smoothly and painlessly, whereas promising a 2-day delivery to a Canadian customer is risky.

Another reason, aside from the strong dollar, that our Canadian business has become more challenging is the increase in competition from some of our U.S. based competitors. In 1996, The Counselor magazine, one of our industry trade publications, surveyed 113 U.S. supplier companies doing business internationally. Eighty-seven percent said that they were doing business in Canada. When I first focused on Canada in 1988, almost none of them had a presence in Canada. Of those suppliers polled, 38 percent increased their export sales in 1996. Canada and Mexico were mentioned as the two places in which international sales were most frequently made. The second most attended trade show by these same U.S. suppliers, after our own flagship PPAI Expo in Dallas, was the show sponsored by the Promotional Products Association of Canada.

Although more recent evidence is anecdotal, my experience tells me that U.S. companies are competing more aggressively with Quill in Canada, and that U.S. firms in our industry are doing significantly more business in Canada since the inception of NAFTA.

Now, for Mexico. The Mexican market for our product has always been highly price sensitive, and although NAFTA lowered our prices into Mexico, that decrease was easily overshadowed by the late 1994–1995 peso devaluation. My Mexican partner tells me that immediately preceding the devaluation, the peso was 3.6 to the dollar. It plunged to 7, and even now 6 years later, it stands at 9.25. Yesterday it closed at 9.4. As a result, our business into Mexico evaporated.

However, last year we identified a Mexican partner dedicated to overcoming our marketing challenges, and 1999 was the first year since the 1994 devaluation that we have done significant business in Mexico. We expect to double that figure in 2000.

We also experience occasional red tape with documentation on shipments into Mexico. But, in general, the exchange rate is a more daunting issue. Given a slightly stronger peso and a continuing commitment to our partner's success, the Mexican market could eventually approach 3 percent of our domestic business, or 10 percent of our total export sales.

Now, I am keenly aware of the human rights issues surrounding NAFTA and Mexican labor, and I sympathize with those concerns. However, the condition of the worker in Mexico will improve with improving economic conditions and a tighter labor market. To bolster that argument, I could cite an article that appeared in the April 14 issue of the Wall Street Journal illustrating that job growth in Mexico is expected to surpass labor force growth by 2006. But I am more convinced by our partner in Guadalajara, Alexis Bellon of Cklass Industries. When I asked him his opinion on NAFTA and its effect on Mexican workers and companies, he said, "Competition—at first it makes you sick, then it makes you stronger."

The international business landscape has changed dramatically since the inception of NAFTA. Two key factors that increasingly influence virtually every business today are technology and globalization. The synergy between these two forces creates a vortex that spins faster each year.

Technology facilitates globalization, leading global companies to seek better and faster technology, which leads to increasing globalization. From century to century, decade to decade, year to year, this vortex spins faster: from the printing press to radio to television, from telegraph to telephone to fax to e-mail, from carriages to railroads to automobiles to airplanes. Technological innovation spurs economic globalization. Then global companies demand still better, faster technology in order to compete.

In a recent interview with the Wall Street Journal, the musician Quincy Jones noted that "it took 40 years to build a 50 million consumer base for radio. It took 13 years to build a 50 million consumer base for television. For the Internet, it took 4 years." The growth of communication technology facilitated the growth of international marketing. The development of faster, cheaper transportation spurred the globalization of distribution channels. Technology and globalization each spurring the other to the next level, and that next level is developed with ever increasing speed.

My business reality at the Quill Company in Rhode Island is increasingly global. That process is inexorable. If our company and

our industry is to be successful long term, it will undoubtedly be in a global marketplace. If we pull back from NAFTA, if we pull back from trade agreements generally, the target governments will retaliate and my overseas competitors will gain the advantage. This will damage our ability to grow the business, to compete globally, to be the engine for job growth that small to medium sized businesses traditionally have been. We are not looking to export jobs; we are looking to export our products.

I urge you to stay the course on NAFTA and continue your efforts to open markets worldwide. Thank you.

[The prepared statement of Mr. Woody follows:]

PREPARED STATEMENT OF MICHAEL M. WOODY

BACKGROUND

The Quill Company is a manufacturer of pen and pencil sets for the promotional products market. We are a medium-size manufacturer employing 95 people at our factory in Cranston, RI. Our company began as a mechanism manufacturer in 1945, and moved into finished goods by purchasing Quill in 1972. Currently, 82% of our sales are domestic, 18% are international. Our two major non-domestic markets are Europe and Canada. One of our strategic goals is to increase our export business to 33% of total sales.

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My point of view on international trade in general, and NAFTA in particular, was shaped by listening to my American competitors complain that overseas manufacturers were aggressively pursuing market share here in the States. Their typical reaction to this threat was to wring their hands and complain that government was not doing enough to prevent it. It seemed to me a feeble response to a competitive situation. I came to the conclusion that if our company was to effectively compete against foreign manufacturers we needed to both defend our own market and pursue market share outside the U.S.

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CANADA

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don, or Madrid proceeds smoothly and painlessly, whereas promising a 2-day shipping time to a Canadian customer is risky.

Another reason, aside from the strong dollar, that our Canadian business has become more challenging is the increase in competition from some of our U.S. based competitors. In 1996, *The Counselor Magazine*, one of our industry trade publications, surveyed 113 U.S. supplier companies doing business internationally. 87% said that they were doing business in Canada. When I first focused on Canada in 1988, almost none of them had a presence in Canada. Of those suppliers polled, 38% increased their export sales in 1996. Canada and Mexico were mentioned as the two places in which international sales were most frequently made. The second most attended trade show by these same U.S. suppliers, after our own flagship PPAI Expo in Dallas, was the show sponsored by the Promotional Products Association of Canada.

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MEXICO

The Mexican market for our product has always been highly price sensitive, and although NAFTA lowered our prices into Mexico, that decrease was easily overshadowed by the 1994 peso devaluation. My Mexican partner tells me that immediately preceding the devaluation, the peso was 3.6 to the dollar. It plunged to 7.0 and even now, six years later, it stands at 9.25. As a result, our business into Mexico evaporated.

However, last year we identified a Mexican partner dedicated to overcoming our marketing challenges, and 1999 was the first year since the 1994 devaluation that we have done significant business in Mexico. We expect to double that figure in 2000.

We also experience occasional red tape with documentation on shipments into Mexico. But, in general, the exchange rate is a more daunting issue. Given a slightly stronger peso and a continuing commitment to our partner's success, the Mexican market could eventually approach 3% of our domestic business, or 10% of our total export sales.

I am keenly aware of the human rights issue surrounding NAFTA and Mexican labor, and I sympathize with those concerns. However, the condition of the worker in Mexico will improve with improving economic conditions and a tighter labor market. To bolster that argument, I could cite an article that appeared in the April 14th issue of *The Wall Street Journal*, illustrating that job growth in Mexico is expected to surpass labor force growth by 2006. But I am more convinced by our partner in Guadalajara, Alexis Bellon of Cklass Industries. When I asked him his opinion on NAFTA and its effect on Mexican workers and companies, he simply said, "Competition—at first it makes you sick, then it makes you stronger."

FUTURE TRENDS

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My business reality is increasingly global. That process is inexorable. If our company, and our industry, is to be successful long-term it will undoubtedly be in a global marketplace. If we pull back from NAFTA, if we pull back from trade agree-

ments generally, the target governments will retaliate and my overseas competitors will gain the advantage. This will damage our ability to grow the business, to compete globally, to be the engine for job growth that small to medium size businesses have traditionally been. We're not looking to export jobs; we're looking to export our products.

I urge you to stay the course on NAFTA, and continue your efforts to open markets worldwide.

Senator DODD. That is great testimony.

Senator CHAFEE. Thank you, Mr. Woody.

Earlier, Ms. Baer, you mentioned lack of fast track. Maybe I could ask the question, do you think that the lack of fast track negotiating authority has slowed down our progress and hampered our efforts to achieve certain goals? Maybe, Mr. McNamara, you might want to comment also since you were critical of our progress on other trade issues throughout the hemisphere. Ms. Baer.

Ms. BAER. I do not think there is any doubt but that the absence of fast track has put a halt to expanding our trade relations with the rest of the hemisphere. We have not signed a single major free trade agreement with another Latin America since NAFTA, and we essentially left Chile like the bride standing at the altar with, as Senator Dodd mentioned, lots of commitments and promises and absolutely no follow-through.

The reason why fast track is so essential to negotiating a trade agreement is because trade agreements are very complex things. They require compromise across a wide variety of issues and trade-offs between issues. And unless you can vote on those issues as a package, which they are in fact a package, it is impossible to negotiate trade agreements. No country will want to negotiate a trade agreement with the United States if they face the prospect in the future of a U.S. Congress that would say, well, perhaps we like this part of the agreement, but we do not like that one. These deals are negotiated with a great deal of delicate balance, and if you unravel one thread, you can unravel the entire fabric. So, I think it has had definitely a chilling effect on our ability to be effective and exert leadership in the hemisphere.

Ambassador MCNAMARA. I would second that. It certainly has. Without fast track, the United States has not in over a generation, made a major trade agreement without having fast track or an equivalent in place for the negotiating period. The reason why we need it is as just stated, that these packages are negotiated, and if you pull them apart in the process of ratifying them back here, they then have to go back to the table and other countries, which have processes for the most part which do not allow for that—the executive branches in most countries, many countries are able to simply approve it.

The other reason is because if a small country decides to pull back from an agreement, the larger country simply takes advantage of that. A small country, which is what we are talking about in the case of most Latin American economies, does not have the strength, the power, and the force to pull away from an agreement like that. They either accept it or do not accept it. The United States, with the enormous power and economic leverage that we have, can pull an agreement apart unless we have fast track. And a vote up or down on the total agreement is necessary or they will

not come to the table. And that does not mean just Latin America. The Europeans and the Asians have made that point also.

Senator CHAFEE. Thank you very much. We will try and make progress on those areas.

Senator DODD.

Senator DODD. Well, thank you.

Let me just pick up on that point. I take a back seat to no one on my support of trade. I think it is tremendously valuable for us, for all the reasons you have identified.

But I think we have got to be a little careful. I think with multilateral agreements, fast track is important obviously because there it really is too complex. With bilateral agreements, one of the dangers you run here is we have a Congress, and it is the only area we think of, with exception of some other unique pieces, that we do not allow for a normal, healthy, full debate and discussion allowing the majority to express their views on things. And when you try and so narrow these things, you run the risk that you prohibit people from expressing themselves. You may disagree with their ideas, but you need to build a base of public support for these agreements that will sustain them and support them over the years. And if we jump to fast track too often and too quickly, when it is not really necessary, then we undermine the basis by which all of these laws ultimately have to depend, and that is, public support and a free-wheeling, free-flowing debate. I grant you they are dangerous. There are risks involved in that. But that is a democracy.

So, I have always been for fast track on multilateral agreements because once you have many nations involved in these things and if we undo one piece of it, then you just never get anything done. With bilateral agreements, I am less inclined. I know it takes time and it is painful to watch, but democracy is and we should not be afraid of that. I think a good healthy debate in the country and arguing these points out that people feel strongly about is not done unwise.

So, I understand your point you are making and I have made it myself on many occasions. But I want to be careful that too often we do not lunge to that as the quick fix on this and, in the meantime, do a lot of damage, unnecessarily so. We need to energize people, educate people about it, how important these issues are. Not enough Members in my view go back to their States and talk about what it means to their jobs and their people to be able to have these markets. I would like to take you, Mr. Woody. In fact, if Rhode Island is ever unkind to you, you could just move down the road a little bit to Connecticut. We would love to have you.

Mr. WOODY. Thank you for the offer, but I love Rhode Island.

Senator DODD. But my point is I would like to take you and have you come and address the Chamber of Commerce or come and talk to some people in our State about what it has meant to your business in job growth, the enlightened self-interest that trade agreements ought to have. We do not do enough of that, so we end up with sort of a two-dimensional view on trade rather than appreciating multilateral aspects, the beneficial aspects of trade agreements for our society and for the nations with whom we strike these agreements.

Let me just ask you one question that is related. It is one thing that has bothered me, and it goes to the heart of what I think you are talking about. It goes to this notion of sort of doing this country by country by country where we set the standard. So, we end up having in the Senate 51 to 49 Chile is in, and then 51 to 49 Bolivia is out. You know, depending on the whims of a Congress on any given day, we accept one trading partner and reject another. The unevenness of that is dangerous, it seems to me, for political purposes here.

I have always argued with the notion that you take something like the Organization of American States, which originally was conceived as a trading organization. At least, that was one of the main ideas behind the OAS. Not the only one, but one of the main ones. And we set up some standards for it, rules by which nations agree to trade with one another so that democratic institutions, free markets, human rights, standards that all of us would agree with, and if you meet those, then you can be a member of the family. But it is not the United States alone establishing those rules. It is sort of a regional agreement as to what it means to be able to trade freely one with the other.

This way you get away from the idea somehow that we determine free trade on our own. We do not. It is an illusion. That is one of the arguments we get on the WTO, that if somehow if we do not vote to have normal trade relations with China, China will never be a member of the World Trade Organization. That is ridiculous. They are going to be a member of the World Trade Organization whether or not we support it or not.

In the case of Latin America, here as you point out, you are getting a lot of these multilateral agreements in the region that exclude us. So, it is not as if nothing happens and they wait to see whether or not we are going to do something.

So, it needs more thought, obviously, but the idea of having some neutral determination of what constitutes proper behavior, if you will, by countries so that we can open up a process that does not leave it up to the whims of a particular Congress from year to year to accept or reject certain countries. I think it is dangerous for us from a foreign policy perspective, and we could end up suffering the consequences.

So, I do not know if you have any thoughts on that, but I would raise it as an issue for you.

Ambassador MCNAMARA. Well, I would say with respect to the OAS and the IDB also, these multilateral organizations do need to step up and take a more active role. I do recognize and congratulate the OAS for having moved in on the trade issue in the last few years, and it has assumed a role supporting working groups of officials and private sector individuals who are trying to work out, if you will, the basis and the technical issues that would go into whatever an FTAA agreement might encompass. They are feeding into a regular series of meetings by ministers of trade in the hemisphere. The last one was held last November in Toronto. So, the OAS has been playing a role in this and an important one. And the IDB has also.

The fact is, though, that they represent sort of the accumulated position or the assembled positions of the member states. There-

fore, it is difficult for them to go beyond where the member states wish them to go. They do not have an independent position or an independent attitude about a particular trade issue, whether it is a technical issue or a more policy level issue. So, there are limitations as to how far the OAS can push the process without having the active support of the member nations. And when you talk about the OAS and the IDB, the active support of the member nations means the United States has to be in the lead in that active support or they are not going to be able to move forward. We are so powerful in this hemisphere that we are the leader. We cannot not lead in this hemisphere.

Senator DODD. Before you answer this question, again I am thinking back to the days, I remember, when the business community just was furious with the Congress when we passed legislation that prohibited the Foreign Corrupt Practices Act. And this was going to kill American business overseas because everyone else did it. Of course, today most American businesses will tell you, thank God Congress did it because it insulates us from what other people have to put up with all the time. But I remember testimony, overwhelming testimony, about it. So, some of these issues that we incorporate here actually in the long term prove out to be very beneficial for business in some of these aspects. And I wanted to just raise that.

Go ahead.

Ms. BAER. Senator, with regard to your point about how we should proceed in any kind of future negotiation, should it occur, the whole notion of Chile first reflects a historical moment, at which time most of the rest of the hemisphere was still at the early phases of their economic reform process, whereas Chile was really quite far advanced, and it was one of the few countries in the hemisphere, at the time when we were talking about this, that would have been capable, whose trade barriers were low enough already and whose economy had been sufficiently privatized that they would be able to enter into a free trade negotiation. I think that situation has changed substantially over the course of years.

The other alternative that people looked at at the time and I think would probably continue to be something worth considering is negotiating with countries en bloc, that is to say, Mercosur is erecting protectionist measures, but it would perhaps make sense to negotiate with Mercosur as a bloc and it would limitate some of the political wear and tear of taking countries one at a time. So, I think the regional approach may still be an option worth considering.

With regard to being able to negotiate a bilateral agreement with fast track as opposed to a multilateral agreement, goodness, my copy of NAFTA occupies an entire shelf in my library, obviously an extraordinarily complex agreement. Perhaps an agreement with a country like Chile would not be quite as complex, although I wonder. I just have to question whether or not there is any bilateral trade negotiation that is so unsensitive that we would be able to negotiate it sector by sector in the U.S. Congress. I think you might end up creating even more political wear and tear for the U.S. Congress. This is not to say that extensive consultation and democratic debate should not take place, but you may end up with more con-

flict trying to do it the way you were suggesting without a fast track procedure.

Senator DODD. Mr. Woody, any comments?

Mr. WOODY. No, sir.

Senator CHAFEE. That is very illuminating testimony this morning. I appreciate it. Singing the praises of NAFTA and all the pain that went into its enactment, now 7 years later, seeing the benefits worth the pain, and look forward to moving in the future with other productive agreements throughout the hemisphere and indeed the world.

We will leave the record open for 3 days for members who wish to submit questions for the record.

Again, thank you. Much appreciation.

[Whereupon, at 10:55 a.m., the subcommittee was adjourned.]

