

Sailing the Tide of Free Trade to Fortune

By Ambassador Carla A. Hills

Introduction

Shakespeare wrote: "There is a tide in the affairs of men which, taken at the flood, leads on to fortune." We are riding such a tide in the affairs of our North American continent: A historic confluence of forces has brought the three great nations of North America to a watershed.

Those forces are the hunger for individual freedom, the thirst for the prosperity to guarantee it, and the belief in the power of the free market as the means to achieve both. Such moments of opportunity are rare. They must be seized when they occur. For example, a U.S.-Canada free trade agreement was first proposed in the mid-19th century. However, fears on both sides of the border prevented it from becoming a reality.

The idea resurfaced periodically over the next century. But it was not until Prime Minister Brian Mulroney and President Ronald Reagan agreed to undertake negotiations in 1985, that we seized the opportunity to expand trade, boost our two economies; generate jobs and create new opportunities for consumers and producers.

Now, Presidents George Bush and Carlos Salinas de Gortari have taken a similarly courageous step. In 1989, both leaders agreed to the idea of a U.S.-Mexico FTA, and in 1990 President Bush notified Congress of his intention to enter into negotiations with Mexico. Later, Canada asked to join in the negotiations and the historic opportunity to create a free trade area stretching from the Yukon to the Yucatan was born.

If we can create a North American FTA, we will:

- ◆ Bring together the energies and talents of three great nations and create the world's largest free trade area with 360 million consumers and \$6 trillion in annual output;
- ◆ Enhance economic growth by expanding opportunities for our workers, our companies and our exports;
- ◆ Put the force of our combined economies behind our efforts to solve a number of pressing North American problems;
- ◆ Light a beacon of hope for our hemisphere — our neighbors in Latin America will benefit from our example and join us in pursuit of a new era of prosperity and freedom; and
- ◆ Set a standard of open markets for the world to emulate.

Ambassador Carla A. Hills is the United States Trade Representative and a member of President George Bush's Cabinet.

She spoke at The Heritage Foundation on May 1, 1991.

ISSN 0272-1155. ©1991 by The Heritage Foundation.

The Positive Economic Impact of a NAFTA

Despite the apparent benefits of a North American FTA, questions are being raised in the United States Congress.

In letters to the President from House Ways and Means Committee Chairman Dan Rostenkowski and Senate Finance Committee Chairman Lloyd Bentsen, and from Majority Leader Richard Gephardt the Administration has been asked to address a variety of economic, labor and environment issues about the proposed North American FTA. The President's response, delivered today, sets forth views on the economic impact of a NAFTA, as well as detailed action plans for addressing labor and environmental concerns.

Jump Start. Mexico, under the leadership of President Salinas is implementing a series of far-sighted policy initiatives. He recognizes that for Mexico to achieve the aspirations of its people, it must jump start its economy. He knows that the best and fastest way to stimulate economic growth is to undertake sweeping market-oriented reforms. And top among them is to open Mexico's borders to free trade with its neighbors.

From 1986 to 1990, as Mexico reduced import barriers, our exports more than doubled from \$12.4 billion to \$28.4 billion, generating 264,000 additional jobs in the United States.

Under a North American FTA, we can do even better. Mexico still has higher trade barriers than the United States. Mexico's average duty is 10 percent compared to 4 percent in the United States. Significant nontariff barriers remain. We, therefore, have much to gain from the elimination of these barriers.

All three major economic studies done so far confirm that the United States will benefit from a NAFTA in exports, output and employment. We will benefit from Mexican growth: For each dollar Mexico spends on imports, 70 cents is spent purchasing U.S. goods; for each dollar of GNP growth, 15 cents is spent on U.S. goods. The resulting economic integration will strengthen the ability of the United States to compete with Japan and the European Community.

Administration Action Plans on Labor and the Environment

With regard to labor and environmental concerns, the Administration has put together a seven-point action plan.

First, we will seek transition provisions in the NAFTA. In order to avoid dislocations to industries and workers producing goods that are import sensitive, U.S. tariff and non-tariff barriers will be phased out in small increments over a long period of time. We will construct an effective safeguard mechanism allowing temporary reimposition of duties and other restrictions to prevent harm to U.S. workers and industries in those isolated cases when injurious increases in imports do occur. And we will write strict rules of origin that will require true North American content so that Mexico does not become a mere pass-through for goods from other countries.

Second, while we do not expect significant job dislocation as a result of the NAFTA, we will have a domestic adjustment program for workers dislocated by changed conditions of the marketplace. We are committed to working with Congress to ensure that an adjustment program is adequately funded and provides effective services to workers who may lose their jobs as a result of the NAFTA.

Third, we have agreed with Mexico that labor mobility and our immigration laws are not on the table in the NAFTA negotiations. The only issue on the table would be a narrow provision facilitating temporary entry of certain professionals and managers.

Memorandum of Understanding. Fourth, we will begin a program of U.S.-Mexico cooperation on labor issues. Mexican labor law and practice is better than is known generally. Mexico has ratified 73 International Labor Organization conventions on worker rights, including those on occupational safety and health. What Mexican workers need is not more laws but greater economic opportunity. The NAFTA will raise living standards and create resources for enforcing the laws already in place. The U.S. and Mexican Labor Departments are prepared to sign a memorandum of understanding providing for joint action and cooperation. Initial projects include occupational health, safety and child labor.

Fifth, we will insist on our right to protect the environment, health and safety of Americans. We will not weaken our standards and will preserve our right to exclude products that do not meet them. We will seek Mexico's commitment to work to enhance environmental, health and safety standards regarding products and promote their enforcement.

Sixth, parallel with the NAFTA negotiations, we will undertake an ambitious program of expanded U.S.-Mexican environmental cooperation, including technical cooperation and training. To address the special problems of the border region, we will design and implement a ten-year border environment plan, with full public participation and review. And we will expand cooperative enforcement activities, including joint targeting of violators.

Finally, to ensure that trade liberalization is consistent with sound environmental practices, I will name to selected policy advisory committees individuals who can bring both an environmental perspective and substantive expertise. Furthermore, in consultation with members of the public, we will complete a review of U.S.-Mexico environmental issues, with particular emphasis on possible environmental effects of the NAFTA, in a time frame that permits U.S. officials to consider the results during the NAFTA negotiations and other discussions.

Fast Track Essential

The potential benefit of the NAFTA is spectacular, and we are committed to protecting U.S. workers and the environment. But our challenge is not simply winning over our trading partners abroad. We are in a fight to convince our Congress that we should be negotiating at all. That fight is over a little-known legislative procedure called fast track.

Fast track is poorly named, for it is neither fast nor on a track. Fast track does not mean that the negotiators are rushed, or that anyone is railroaded into approving any agreement that might be negotiated. Actually, the process is quite deliberate and the outcome is hardly preordained. Fast track simply provides two guarantees essential to a successful trade negotiation. First, it does not allow the trade agreement to be amended. Second, it assures our trading partners that there will be a vote within a fixed period of time.

Fast track gives the President the same bargaining power already possessed by his counterparts: The ability to assure that the deal they strike at the bargaining table will be the deal that is voted on by Congress. Without that assurance, foreign governments are reluctant to negotiate with the United States, and certainly will not make tough concessions. No negotiating partner will give its bottom line knowing that the bargain could be reopened.

Fast track is not new. Since 1934, Congress and the President have worked together as partners to get tariffs reduced worldwide. Congress first created the fast track in 1974 as the necessary next step in the partnership to deal with our trade agenda which had grown in scope and complexity, and it has governed every major trade negotiation in the seventeen years since.

Different Priorities. Fast track reflects an understanding that the participants in a trade negotiation very often have quite different priorities. Results in one area are linked to results in others. Consequently, trade agreements are particularly vulnerable to even small amendments that can unravel an entire negotiation.

Our Constitution vests the President with the power to negotiate with foreign governments and the Congress with the power to regulate international commerce. Fast track assures that these two powers work in harmony by ensuring heavy congressional input before, during and after the negotiations.

Despite the rationale of these arguments, a variety of interests have launched a campaign against fast track in an effort to prevent the President from negotiating the North American FTA. We are handicapped in quieting fears that have arisen in this procedural debate because no agreement yet exists. Should Congress conclude after the agreements are negotiated that they do not advance the national interest, then they can be rejected by a simple majority of either House.

Conclusion

Every economic boom in our history has been led by a major market-opening initiative like the creation of the GATT in 1948; every deep downturn by a protectionist retrenchment like the Smoot-Hawley Tariff Act in 1930. Eliminating fast track, and thus killing any chance of a North American Free Trade Agreement, (and likewise a comprehensive Uruguay Round agreement) would be a fatal mistake much like Smoot-Hawley.

We can wring our hands with worry about what might happen as a result of a NAFTA, or we can seize the opportunity, confident that history has proven the positive benefits of opening markets and expanding trade.

If we do not, we will learn, as Shakespeare also wrote, that the voyage omitted will strand us in shallows.

