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SETTING THE RECORD STRAIGHT: EVALUATING ROSS PEROT'S ALLEGATIONS AGAINST THE NAFTA

INTRODUCTION

The Clinton Administration on September 14 launched its campaign to secure congressional ratification of the North American Free Trade Agreement (NAFTA).[1] Flanked by former Presidents Gerald Ford, Jimmy Carter, and NAFTA architect George Bush, Bill Clinton used the occasion of the signing of the side accords on environmental and labor standards to kick off his pro-NAFTA drive. Clinton's mission: convince the American people and members of a dubious Congress that the free trade pact with Canada and Mexico will create new U.S. jobs, expand exports, and improve U.S. economic competitiveness.

However, the White House and other NAFTA supporters are facing an uphill struggle. Anti-NAFTA forces, led by Texas billionaire H. Ross Perot, conservative commentator Patrick Buchanan, civil rights activist Jesse Jackson, consumer rights advocate Ralph Nader, and a conglomeration of radical labor and environmental groups, have made the defeat of the NAFTA their top priority.

Flat-Out Incorrect. At the forefront of this effort to derail the historic free trade accord is Perot's book, *Save Your Job, Save Our Country: Why NAFTA Must be Stopped —Now!*.[2] The book, co-written with economist Pat Choate, an ardent union supporter and long-time protectionist, alleges throughout its 142 pages that the U.S. has been "outtraded" by Mexico and Canada in a "secret deal" that will undermine the U.S. economy. Perot wrongly claims that cheap Mexican wages will "suck" millions of high-paying American jobs south of the border like a "giant vacuum" and that the U.S. manufacturing base will be wiped out. The Perot and Choate book, which most independent economists and trade experts regard as simplistic and

1 The NAFTA will be considered by Congress later this year or early next year. It is a trade agreement between the United States, Canada, and Mexico that will create the world's largest open market, with a population of 370 million and a gross domestic product (GDP) of some $7 trillion. It will do this by eliminating most tariff and non-tariff barriers between the three countries over a period of fifteen years.

2 Ross Perot and Pat Choate, *Save Your Job, Save Our Country: Why NAFTA Must Be Stopped—Now!* (New York: Hyperion, 1993).

flat-out incorrect, overlooks the many factors, other than wage levels, that actually drive business decisions and the location of factories.[3] Perot and Choate call the NAFTA a "drastic and unfair scheme" that will pit American and Mexican workers "in a race to the bottom."[4] They also promote the myth, as does Pat Buchanan, that the agreement will "radically reduce the sovereignty of the United States" and that the "secret" agreement has been forced upon the American people by crafty lobbyists, all paid for by foreign governments and multinational corporations.[5]

Almost every independent and U.S. government study shows, however, that Perot, Choate, and the other anti-NAFTA leaders are dead wrong on the free trade pact. For example, it is estimated that under the NAFTA there will be a net increase of 200,000 jobs as a result of increased U.S. exports to Mexico. Today, trade with Mexico alone sustains at least 700,000 jobs in the U.S.[6] Moreover, the NAFTA will help address many of the other concerns raised by NAFTA critics. The agreement will accelerate the rate of rising Mexican wages, it will address environmental concerns along the border and inside Mexico, it will help lock into place Mexican President Carlos Salinas de Gortari's free market and democratic reform programs, and it will diminish over time the flow of illegal immigrants and drugs across the U.S. border.

Competing Visions. The bipartisan gathering of NAFTA defenders that convened at the White House on September 14 for the side accord ceremony demonstrated that the battle lines on the trade pact are not drawn along party lines, but rather according to two different economic visions. Those that favor the NAFTA believe that U.S. workers can compete and win in the global marketplace. They are also convinced that free and expanded trade benefits all Americans. Opponents of the free trade accord like Perot are inward-looking, favor the status quo, and fear competing with other countries. Perot and other NAFTA opponents believe that opening U.S. markets to foreign goods greatly harms U.S. workers and the economy. They also argue that U.S. sovereignty and security will be threatened if the NAFTA goes through.

Perot and other NAFTA opponents misunderstand the economics of the NAFTA. The bottom line is that the NAFTA is a "win-win" agreement for America. After the NAFTA, the U.S. will eliminate an average 4 percent tariff on Mexican goods, while Mexico will drop its average 10 percent tariff on U.S. goods. As a result, it will be easier to produce goods and services in the U.S. and sell them to Mexico. Therefore, once the NAFTA is passed, American companies will have less of an incentive to move south of the border to try to penetrate the Mexican market.

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3 Economists or trade experts who disagree with Perot's allegation include: Gary Clyde Huffbauer and Jeffrey J. Schott of the Washington-based Institute for International Economics; Steven Globerman and Michael Walker of the Fraser Institute in Canada; Milton Friedman of the Hoover Institution; Rudiger Dornbush of the Massachusetts Institute of Technology, Mexican economist Rugelio Ramirez De la O, Paul Samuelson of the Massachusetts Institute of Technology, and James Buchanan of George Mason University.

4 Perot and Choate, p. i.

5 This theme permeates the Perot and Choate book.

6 "The NAFTA: Expanding U.S. Exports, Jobs, and Growth," *Clinton Administration Statement on the North American Free Trade Agreement*, July 1993, p. 3.

There is another reason why the NAFTA is sound economics: Mexicans purchase more U.S. imports per capita than do much wealthier Japanese and Europeans. These exports to Mexico create American jobs. As stated by Senator Bill Bradley, the Democrat from New Jersey:

> Defeating NAFTA won't create jobs, control immigration, or clean the environment. Either we address the problems of economic transformation head on, or we bury our heads in the sand, blame NAFTA for situations it did not create, and accept a lower standard of living and a fraying social fabric....NAFTA opens more than a trade door. It will enhance our nation in ways that are absolutely critical to growth, progress, and security in the 21st century."[7]

MYTHS AGAINST NAFTA: EVALUATING PEROT'S ALLEGATIONS

In their attempts to discredit the NAFTA, Perot, Choate, and other critics often misrepresent the facts and distort the truth about the agreement. Their arguments, nevertheless, have greatly harmed the NAFTA's chances in Congress. Consequently, as Congress begins its deliberation on the pros and cons of the NAFTA, it will require clear and concise information on the merits of the pact. Only then will it be able to distinguish between myth and reality. The myths advanced in Perot's book are:

Myth #1:

As many as 5.9 million jobs will be lost in the U.S. as a result of the NAFTA.[8]

Reality:

Almost every independent study on the NAFTA predicts that there will be a net gain in the number of U.S. jobs as a result of expanded American exports to Mexico and new foreign investment in the U.S.[9] Since Mexico began to open its economy in 1986, the number of American workers producing merchandise exports to Mexico has risen from 274,000 to an estimated 700,000 last year. With the NAFTA, the non-partisan International Trade Commis-

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7 Bill Bradley, "NAFTA Opens More than a Trade Door," *The Wall Street Journal*, September 16, 1993.

8 This theme permeates the Perot and Choate book.

9 See, for example: Larry Brookhart and Robert W. Wallace, "Potential Impact on the U.S. Economy and Selected Industries of the North American Free-Trade Agreement," USITC publication #2596. (Washington, D.C.: U.S. International Trade Commission, January 1993); Rudiger Dornbusch, "NAFTA: Good Jobs at Good Wages," paper presented at "NAFTA Summit: Beyond Party Politics," a conference sponsored by The Brookings Institution, The Center for Strategic and International Studies, and The Fraser Institute, (Washington, D.C.: June 28-29, 1993); Steven Globerman and Michael Walker, *Assessing NAFTA: A Trinational Analysis* (Vancouver, B.C.: The Fraser Institute, 1993); Edward Hudgins, Ph.D., "Myths About NAFTA," House Republican Conference Issue Brief, 1993; Gary Clyde Hufbauer and Jeffrey J. Schott, *NAFTA: An Assessment* (Washington, D.C.: Institute for International Economics, 1993); Paul A. London and Jonathan Whittle (The Stern Group, Inc.), "Investment, Trade, and U.S. Gains in the NAFTA" (Washington, D.C.: U.S. Council of the Mexico-U.S. Business Committee, 1992). Alan Reynolds, "The Impact of NAFTA on U.S. Wages and Jobs," paper presented at the Cato Institute conference on The North American Free Trade Agreement, Washington, D.C., June 8, 1993; Lenore Sek, "North American Free Trade Agreement," Congressional Research Service *Issue Brief*, June 8, 1993.

sion (ITC) predicts, 200,000 more export-related jobs will be created by 1995. It is estimated that for every $1 billion in increased exports, 22,800 jobs are created in the U.S. Since 1986, American exports to Mexico have exploded from $12.6 billion to $40.6 billion last year. As U.S. exports to Mexico increase under NAFTA, so too will the U.S. job base. Moreover, Americans working in jobs related to exports to Mexico make 12 percent more than the national average.[10]

Even Clyde Prestowitz, the President of the Economic Strategy Institute, a Washington-based think tank that once was strongly against the NAFTA, now says that the pact should be ratified. Last fall, Prestowitz claimed that the NAFTA would cost up to 222,000 jobs. Today, however, he argues that "NAFTA will be a plus in the long run." His reasoning: Many U.S. companies will likely shut down their operations in Mexico and return home once Mexico lowers its trade barriers. If U.S. companies can penetrate the Mexican market without confronting tariffs, one of the key rationales for locating there in the first place disappears. Moreover, it is likely that many U.S. corporations will move their Asian manufacturing facilities to Mexico once the NAFTA is enacted, making it almost certain that they would import components from the U.S., thereby creating new U.S. jobs.[11]

According to Gary Hufbauer and Jeffrey Schott, authors of the Institute for International Economics book *NAFTA: An Assessment*, "If the NAFTA is rejected, the U.S. is likely to experience job losses. Rejection of the NAFTA would probably cause capital to leave Mexico. The resulting slowed Mexican growth and a potential devaluation of its currency would contract Mexico's imports and expand its exports, thereby slashing the U.S. trade surplus with Mexico."[12] While Hufbauer's and Schott's estimate of job increases is slightly different from those predicted by the ITC or the Clinton Administration, they still calculate that under the NAFTA, a gross total of 316,000 U.S. jobs will be created, while a gross total of 145,000 U.S. jobs will be lost—leading to a net gain of 171,000 new jobs.[13]

Myth #2:

Lower wages in Mexico will encourage U.S. companies to relocate their plants and factories there.[14]

Reality:

Since labor represents only between 10 percent to 20 percent of production costs for most businesses, Perot's argument about lower wage levels in Mexico luring U.S. plants south of the border is greatly exaggerated and in most cases wrong.[15] If U.S. companies were going to move to Mexico, they would have already done so. The reason: there is absolutely nothing stopping them from relocating there today. Mexico has removed most of its restrictions on

10 For more information see: "Potential Impact on the U.S. Economy and Selected Industries of the North American Free Trade Agreement," U.S. International Trade Commission Report, January 1993.

11 Bob Davis, "Prestowitz Shifts to Support of NAFTA, Reconsiders Predictions of Job Losses," *The Wall Street Journal*, September 17, 1993.

12 "NAFTA: A Win-Win-Win Situation for North America," Institute for International Economics *News*, February 17, 1993.

13 *Ibid.*

14 Perot and Choate, pp. 35 and 68.

15 Keith Bradsher, "Perot Leads Attack on Trade Agreement," *The New York Times*, September 16, 1993, p. A20.

foreign investment and ownership of manufacturing facilities.[16] Moreover, wage levels in Mexico are not nearly as low as many people believe and will rise steadily under the NAFTA. It is estimated that Mexican wages have risen by 28.7 percent since 1987. Rapidly increasing wage levels in Mexico, combined with lower productivity levels, often erases much of the wage advantage anyway.

U.S. workers earn high wages because they are the most productive workers in the world. By contrast, Mexico's wages are low because the economy is poor. U.S. companies wishing to relocate to Mexico must deal with the consequences of what is essentially a Third World economy. For example, the operating costs for U.S. firms doing business in Mexico are raised considerably by higher levels of worker absenteeism, lower educational standards, political instability, limited access to raw materials, and the problems associated with long distance management. Consequently, few companies base plant locations on a simple calculation of wage differentials; for most U.S. manufacturers, the cost of labor is less important than such factors as access to technology, the skills of the local work force, and the quality of the transportation network. If cheap labor were the sole determinant of plant sites, then Perot and other U.S. industrialists would be relocating their factories to countries like Haiti and Nicaragua.

Myth #3:
NAFTA will destroy America's manufacturing base.[17]

Reality:
Perot and Choate clearly misrepresent the facts when making this charge. The NAFTA benefits the U.S. economy and manufacturing base because it levels the playing field of trade with Mexico. As far as most imports from Mexico are concerned, the U.S. already practices free trade. The NAFTA will mainly affect Mexican barriers against U.S. goods. Mexico's average tariff barriers against U.S. exports are 2.5 times higher than U.S. tariffs against imports from Mexico. By contrast, over 50 percent of U.S. imports from Mexico already enter duty-free and the average U.S. tariff on Mexican goods is only 4 percent. Moreover, complex Mexican domestic licensing requirements further impede U.S. exports to the Mexican market. The NAFTA, however, will eliminate these non-tariff barriers.

Mexico is the United States' third largest and fastest growing export market. Only Canada and Japan purchase more U.S. goods and services. Only Canada buys more U.S. manufactured goods than Mexico. Since 1986, U.S. exports to Mexico have increased by 228 percent to $40.6 billion—2.3 times faster than U.S. exports to the rest of the world. Moreover, Mexicans buy more U.S. goods per capita than do much wealthier European and Japanese consumers.[18] It is estimated that 70 cents of every dollar that Mexico spends on foreign products is spent on U.S. goods.[19]

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16 "NAFTA: Summary and Analysis," House Republican Conference *Issues Brief*, September 13, 1993, p. 3.

17 Perot and Choate, page 28-40.

18 Clyde Prestowitz, "NAFTA: Why we Hafta," *The Washington Post*, September 19, 1993.

19 For more information, see "The NAFTA: Expanding U.S. Exports, Jobs, and Growth," *Clinton Administration Statement on the North American Free Trade Agreement*, July 1993, pp. 4-7.

American exports of manufactured goods to Mexico have grown rapidly since Mexico lowered its trade barriers in 1986. This rise in U.S. exports to Mexico has added more than 400,000 new jobs to the American economy. By increasing export opportunities, the free trade accord will enable the U.S. to take advantage of its economic strengths, which include high-wage, high-technology manufacturing. U.S. exports to Mexico will jump by 46 percent by 1995, to $60 billion, compared with $41 billion last year. Six years ago the figure stood at only $14.5 billion.[20] This increase in trade, much of which is in U.S.-manufactured goods, will undoubtedly help fortify—not damage—the U.S. manufacturing base.

As pointed out by Hufbauer and Schott, Puerto Rico has enjoyed free trade with the U.S. for decades. While a major gap still separates manufacturing wages in the U.S. and Puerto Rico, American jobs have not been lost as a result of the differential. Between 1970 and 1990, employment in Puerto Rico's manufacturing sector rose only from 132,000 to 160,000 jobs, and those numbers fell as a share of the work force from over 17 percent to under 15 percent. If low wages were such a magnet for manufacturing activity, Puerto Rico should have gained far more new jobs as a result of U.S. companies relocating there. That did not happen. Moreover, the proportion of the labor force engaged in manufacturing activity should have risen, not fallen.[21]

Myth #4:

NAFTA is not a free trade agreement, but an investment agreement.[22]

Reality:

The protection and expansion of U.S. investments overseas has been a cardinal principle of American foreign economic policy for decades. American investment in foreign markets helps generate U.S. exports, thereby creating new high-paying jobs at home. As a business leader, Perot should understand that securing good investment agreements are vital to reaching good trade agreements. Investment agreements establish the legal groundrules under which U.S. companies can invest in foreign countries. They also govern issues such as taxation of the repatriation of profits.

While the NAFTA prohibits arbitrary seizure and expropriation of foreign property, one of the major purposes of the free trade pact is to remove Mexican laws that encourage U.S. firms to relocate to Mexico. Under the NAFTA, the Mexican government will end policies that require U.S. companies to operate inside Mexico in order to sell to the Mexican market. U.S. companies will be able to sell goods to Mexico without restriction. Furthermore, the NAFTA ensures that U.S. companies doing business in Mexico will no longer be forced to purchase Mexican-made goods. Instead they will be able to use imported U.S.-made equipment and components.

The NAFTA negotiators have, in fact, produced a landmark agreement on investment. The NAFTA commits the U.S., Canada, and Mexico to provide national treatment to investors, meaning that U.S. companies will be treated the same as domestic companies.[23] Moreover,

20 *The Kiplinger Washington Newsletter*, September 10, 1993, p. 1.

21 Hufbauer and Schott, *op. cit.*, p. 12.

22 Perot and Choate, pp. 11, 68.

23 "NAFTA: A Win-Win-Win Situation for North America," p. 6.

the NAFTA also protects U.S. investors against restrictions on the repatriation of capital, profits, and royalties. In addition, private investors, under the rules of the NAFTA, can seek binding arbitral rulings in trinational forums set up under the agreement directly against the host government if these rights are infringed upon.

Myth #5:

NAFTA will turn Mexico into a "platform" that Japan, Europe, and China can exploit to route their exports into the U.S.[24]

Reality:

Once again, Perot and Choate are misrepresenting the facts. As with the 1989 U.S.-Canada Free Trade Agreement (FTA), the NAFTA contains rules of origin to prevent non-member countries from using one NAFTA country as a way to evade the trade restrictions of another. For example, most motor vehicles are required to contain 62.5 percent of North American parts in order to qualify for duty-free treatment. This rule of origin is meant to prevent Japanese firms from using assembly plants in Mexico as a way to bypass normal U.S. restrictions on U.S. imports.[25]

The International Trade Commission also states that:

> the NAFTA's rules of origin are intended to ensure that the benefits of tariff reductions will accrue principally to the NAFTA parties and to provide incentives for North American production and sourcing. To qualify as a North American product under the NAFTA, a number of industrial sectors will be subject to a stricter and more detailed change in tariff classification rules, higher and more stringent value-content requirements, and rules requiring that certain components and parts be produced in North America.[26]

These sectors include automotive goods, computers and other electronic equipment, machine tools, steel mill products, textiles and apparel, major household appliances, and industrial machinery.

In fact, the NAFTA's rules of origin are so strict in that some free market economists fear that they will hinder foreign investment and North American economic competitiveness. While rules of origin are an integral part of all free trade pacts, they can be used as protectionist tools to discriminate against foreign competition. Strict rules of origin can penalize regional producers by forcing them to buy their parts and components from less efficient suppliers located within the free trade area. Moreover, some economists argue that the NAFTA rules of origin could establish a protectionist precedent for other preferential trade pacts, thereby limiting global trade liberalization.[27]

24 Perot and Choate, pp. 9-10.

25 "NAFTA: Summary and Analysis," House Republican Conference *Issue Brief*, September 13, 1993, pp. 2-3.

26 The International Trade Commission, *op. cit.*, p. ix.

27 Hufbauer and Schott, *op. cit.*, pp. 5-6.

Myth #6:

The intellectual property rights provisions in NAFTA will "offer incentives for moving [U.S.] operations and jobs to Mexico."[28]

Reality:

This charge is false. The NAFTA stands as a model for resolving outstanding disputes over intellectual property. The free trade pact will ensure a high level of protection under Canadian and Mexican law for U.S. owners of patents, copyrights, trademarks, trade secrets, and integrated circuits, as well as safeguards for computer programs, pharmaceutical inventions, and sound recordings. The NAFTA obligates Canada and Mexico to enforce intellectual property rights against infringement internally and at their borders. By protecting intellectual property rights, the NAFTA will help increase trade and diminish losses from piracy and counterfeiting. This will lead to economic growth, new jobs, and increased competitiveness in the U.S.[29]

Myth #7:

More U.S. companies will move to Mexico to take advantage of the so-called *maquiladora* program if the NAFTA is passed.[30]

Reality:

U.S. companies have been operating assembly plants, known as *maquiladoras*, along the U.S.-Mexico border since 1965. Under this program, components made in the U.S. are sent to Mexican plants for assembly, utilizing Mexico's less expensive labor. The finished product is then shipped duty-free to the U.S. or exported elsewhere.

Despite charges by Perot and others that the *maquiladora* program has hurt the U.S. economy, it has not caused a net loss of U.S. jobs. To the contrary, by reducing labor costs, this program has allowed U.S. manufacturers to remain globally competitive and keep their U.S. plants operating.[31]

According to the Office of the U.S. Trade Representative (USTR), the *maquiladora* program will effectively end once the NAFTA is in place; all imported parts from the U.S. will enter Mexico without custom changes or conditions. The free trade pact, moreover, will eliminate *maquiladora* rules that prevent Mexican-based U.S. companies from selling their products in Mexico. *Maquiladoras* can now sell only 20 percent of their products in Mexico.[32] Under the NAFTA, there will be no such restrictions. Instead, U.S. *maquiladoras* will be allowed to sell 100 percent of their products in the Mexican market. Perot and Choate claim that most U.S. exports to Mexico have been funneled through the *maquiladoras* to the

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28 Perot and Choate, pp. 92-93.

29 "Summary of Principal Provisions of NAFTA," U.S. Department of State *Dispatch*, Volume 4, No. 35, August 30, 1993, pp. 601-602.

30 Perot and Choate, pp. 31, 48-50.

31 For more information see: Wesley R. Smith, "The NAFTA Debate, Part I: A Primer on Labor, Environmental, and Legal Issues," Heritage Foundation *Backgrounder* No. 936, April 9, 1993.

32 U.S. Department of Labor, "Economic Discussion Paper #29," August 1988, p. 17.

U.S. for re-export. This is incorrect. Instead, an estimated 83 percent of U.S. export growth to Mexico has been for Mexican consumption, and not for re-export.[33]

Myth #8:

Low wages will lead U.S. automotive companies to relocate their plants to Mexico, thereby threatening the jobs of U.S. auto workers.[34]

Reality:

A study of the NAFTA by the U.S. Office of Technology (OTA) demonstrates that such assertions by Perot and Choate are unfounded. The OTA reports that it costs a Mexican plant $9,180 to deliver a car to the U.S. market, compared to $8,770 for a U.S. auto maker.[35] Mexico's high shipping, parts, and inventory costs more than offset its lower labor costs. Furthermore, the U.S. cost advantage grows as Mexican wages rise. Under the NAFTA, moreover, U.S. exports of automobiles to Mexico will greatly increase, thereby increasing jobs in the American automotive industry.

There is another problem with Perot's and Choate's analysis. They fail to acknowledge that the current U.S. tariff on Mexican automobiles is only 2.5 percent. In contrast, Mexico's tariff on U.S.-made cars is 20 percent, or eight times higher than the U.S. duty. Under the free trade pact with Mexico, this tariff will be cut in half almost immediately and then fully eliminated over the next nine years. The Big Three U.S. auto producers estimate that the NAFTA will increase annual U.S. exports to Mexico from 1,000 vehicles a year today to over 60,000 vehicles in the first year of the free trade accord.[36]

The NAFTA also will end the requirement for U.S. automotive companies to manufacture in Mexico in order to sell there. Moreover, it will eliminate Mexican local content and local production requirements that have encouraged U.S. automobile and parts manufacturers to move production and jobs to Mexico. With NAFTA, the U.S. will be able to increase significantly automobile and auto parts exports to Mexico. Without the NAFTA, Mexico will almost certainly maintain its high tariff and non-tariff barriers on U.S. cars.[37]

Myth #9:

The NAFTA will hurt U.S. farmers and agricultural interests.[38]

Reality:

Under the NAFTA, the U.S. and Mexico will eliminate all tariffs, import quotas, and licenses on all agricultural products on January 1, 1994. However, according to economists Steven Globerman and Michael Walker, "The agriculture sector is politically sensitive to [trade] liberalization, and this was acknowledged by the longer transition period (15 years) granted

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33 *Correcting the Record: Response of the Office of the U.S. Trade Representative to the Perot/Choate NAFTA Book,* September 2, 1993, p. 27.

34 Perot and Choate, pp. 9-10 and 31-33.

35 "U.S.-Mexico Trade: Pulling Together of Pulling Apart," Congress of the United States, Office of Technology Assessment, October 1992.

36 *The Kiplinger Washington Letter*, September 10, 1993, p. 1.

37 *Correcting the Record,* pp. 5 and 23.

38 Perot and Choate, pp. 10-11.

for certain products both for the U.S. and Mexico. Special treatment was given to sugar, frozen orange juice concentrate, peanuts, and certain fruits and vegetables (asparagus, broccoli, cantaloupe, and cucumbers) for the U.S. and for corn, dry beans, and milk powder for Mexico."[39] Both the Bush and Clinton Administrations have predicted that the U.S. agriculture sector and American farmer will be big winners under the NAFTA. Conservative estimates show an expected increase of $2 billion to $2.5 billion in U.S. agricultural exports annually to Mexico by the end of the transition period.

The NAFTA will end decades of agricultural socialism in Mexico. By opening up the Mexican market to U.S. agricultural products and equipment, the U.S. economy will benefit and millions of jobs will be created. Moreover, under the NAFTA, U.S. investment in Mexican agriculture, which was once shunned, will now be encouraged. Finally, American consumers will benefit under the NAFTA because they will have a wider variety of food products at a lower cost.

Myth #10:

Since the NAFTA was not submitted to Congress prior to June 1, 1993, it is not covered under the so-called fast track trade authority.[40]

Reality:

Fast track trade authority, which has been used by U.S. Presidents since 1974, is essential for negotiating and ratifying free trade pacts. Fast track powers allow the White House to negotiate trade accords without the threat of the many congressional amendments that would almost certainly kill most trade agreements. Moreover, they call for an up-or-down vote once the agreement is submitted to Congress. Perot and Choate contend that the fast track powers no longer apply to the NAFTA since the pact was not sent to Congress prior to June 1, 1993, when the two-year fast track authority ended.

Once again Perot and Choate do not understand the facts. In a report titled *Correcting the Record,* the USTR calls this passage in the book "pure fiction." It stresses that because of the 1991 fast track legislation, fast track procedures remain available for trade agreements signed by the U.S. President prior to May 31, 1993. President Bush signed the NAFTA on December 17, 1992, over five months prior to the deadline. Consequently, the USTR correctly states that "fast track procedures [are] still available for NAFTA; no new legislation [is] needed."

Myth #11:

The fast track authority gave President Bush the authority to negotiate the agreement "in complete secrecy without the participation of either Congress or the U.S. public."[41]

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39 Globerman and Walker, *op. cit.* p. 150.
40 Perot and Choate, pp. 14-16.
41 Perot and Choate, p. 14.

Reality:

On the contrary, no trade agreement in history has been the subject of as many consultations as the NAFTA. During the negotiation process, the Administration held nearly 1,000 consultations or briefings with individuals outside the executive branch. These included public hearings at which hundreds of individuals testified, 350 meetings with official advisory committees, and repeated contacts with key members of the House and Senate.

Myth #12:

Some regions of the U.S., especially the midwestern states, will be hurt by the NAFTA.[42]

Reality:

A June 1993 study by The Heritage Foundation demonstrates that the NAFTA will benefit the country as a whole, not just one or two particular regions.[43] According to the study, at least 41 of the country's fifty governors support the agreement, with the others remaining undecided. Their confidence in the NAFTA stems from the fact that most states already have seen sharp increases in exports to Mexico over the last five years. The U.S. Department of Commerce estimates that nearly every state in the nation has benefitted from increased trade with Mexico, with every region in the U.S. posting large increases in exports to Mexico last year.[44] According to their figures, 31 states doubled their exports to Mexico, while fifteen states tripled their exports. In fact, the industrial midwest—home to such NAFTA opponents as Democrat Representatives David Bonior of Michigan and Marcy Kaptur of Ohio—posted a 90 percent increase in exports to Mexico just since 1987. Other examples from the same period of time: Illinois turned in a 417 percent increase; Wisconsin, a 247 percent increase; Ohio, a 188 percent increase; Indiana, a 30 percent increase; and Michigan, a 32 percent increase.[45]

Myth #13:

NAFTA does not sufficiently address environmental issues.[46]

Reality:

The NAFTA does more than any trade agreement in history to protect the environment. The NAFTA explicitly ensures America's right to safeguard its environment, while encouraging Canada and Mexico to strengthen their environmental standards.

The NAFTA side accords create a North American Commission on the Environment which will oversee the enforcement of each country's environmental laws. Any individual, business, independent organization, or government will be able to file a complaint with the commission. Disputes over one country's repeated failure to enforce its national labor and environmental standards will be mediated by the commission. If the matter cannot be resolved effec-

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42 Perot and Choate, pp. 34-37.

43 Douglas Seay and Wesley Smith, "Why the Governors Support the NAFTA (And Washington Doesn't)," Heritage Foundation *Backgrounder* No. 946, June 15, 1993.

44 Statistics provided by the U.S. Department of Commerce.

45 Statistics provided by the U.S. Department of Commerce.

46 Perot and Choate, p. 99.

tively, the disagreement will be forwarded to an arbitration panel of independent experts. If the panel finds that a signatory country has persistently failed to comply with already agreed-upon standards, it will then be free to impose fines. If violations persist, trade sanctions in the form of quotas and tariffs could be placed on the violating country with a maximum financial loss of $20 million per year. Moreover, if the NAFTA goes through, the White House has agreed to establish a $4 billion environment fund to clean up the 2,000-mile border with Mexico.

Because of the NAFTA's efforts to protect and clean the environment, several prominent environmental groups have voiced their support of the free trade pact. Last September 16, the leaders of six environmental groups, including the National Audubon Society and the National Wildlife Federation, vowed that they would help the White House fight for congressional passage of the NAFTA. They view the NAFTA as the only mechanism for improving environmental conditions in Mexico and along the border. If the NAFTA is defeated and Mexico remains a poor nation, it will not have the resources or the motivation to take strong steps to safeguard the environment.[47] According to Kathryn Fuller, President of the World Wildlife Fund, "Our support of NAFTA boiled down to this: The environment in North America—and the global environment, for that matter—will be better off with NAFTA than without it."[48]

Myth #14:

NAFTA will undermine U.S. food safety and health regulations.[49]

Reality:

The NAFTA permits the U.S. or any individual state or city to set its own health and sanitary standards as high as it wants, as long as it shows a scientific basis for its standards and it treats domestic products the same way as imports.[50] Moreover, the supplemental agreements to the NAFTA include a commitment by the three signatories to "harmonize standards upward" for food and health regulations. While the NAFTA's provisions will discourage a "downward harmonization" of health and safety standards, it does not require the U.S. to change any particular standards. Instead, claims the U.S.Trade Representative, "the NAFTA creates a process by which the three countries can try to reach greater compatibility of standards, but does not require [the U.S.] to agree to any particular change in standard."[51]

Myth #15:

The NAFTA jeopardizes the safety of American travelers by opening U.S. roads and highways to Mexican trucks and drivers that do not meet minimum U.S. safety standards.[52]

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47 Keith Schneider, "Environmental Groups are Split on Support for Free-Trade Pact," *The New York Times*, September 16, 1993.

48 Bob Dart, "Six National Groups on Environment Endorse NAFTA," *The Washington Times*, September 21, 1993.

49 Perot and Choate, pp. 82-83.

50 J.W. Anderson, "Perot's Little Book of NAFTA Nonsense," *The Washington Post*, September 5, 1993.

51 *Correcting the Record*, pp. 48-49.

52 Perot and Choate, pp. 3-6.

Reality:

There is not a single provision in the NAFTA agreement that exempts Mexican vehicles or drivers from U.S. safety and environmental standards. All Mexican trucks entering U.S. territory will have to comply fully with all applicable safety and emissions standards, and these will be enforced regardless of the nationality of the operator. All U.S. safety regulations on truck weight, size, brakes, and servicing will be enforced against Mexican drivers. So, too, will be U.S. regulations covering the expertise of the drivers and their ability to read and speak English. Moreover, Mexican drivers will be tested for licensing according to a standard that is fully compatible with that in the U.S.

Myth #16:

Under the NAFTA, smuggling drugs into the U.S will become much easier.[53]

Reality:

Once again, Perot and Choate are misguided. Under the NAFTA, border control will gradually be expanded. In fact, since U.S. Customs agents will be focusing increasingly less on the assessment and collection of tariffs, they and other officials will have more time to inspect shipments for illegal narcotics.

If the free trade pact is passed, moreover, the improved ties between the U.S. and Mexico will be cemented and cooperation in law enforcement efforts will grow. The economic benefits that the NAFTA will bring to Mexico will also allow it to dedicate more of its own resources to fighting the drug trade. More important, free trade with the U.S. will generate new and better paying jobs in Mexico, thereby making it more likely that Mexicans will reject the temptation to engage in the narcotics business. The use of Mexico's agricultural land for drug crops also will likely decline over time as more acreage of legal export crops are produced for export to the U.S. The removal of U.S. trade barriers on Mexican fruits, vegetables, and other agricultural products will reduce the incentive to grow such illegal crops as marijuana and opium poppies.[54] As the U.S. Trade Representative's office argues, "Nothing in the NAFTA limits [the U.S.] ability to stop illegal drugs" flowing across the border.

According to a senior anti-narcotics official in the U.S. government, who wishes to remain unnamed, a rejection of the NAFTA would result in "a serious setback in U.S.-Mexican cooperation in the fight against drug trafficking." Salinas would view it as "a slap in the face," says the official, and the Mexican government would likely be far less willing to work closely with the U.S. to interdict drugs and destroy drug crops in Mexico.

Myth #17:

The NAFTA will increase illegal immigration in the U.S.[55]

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53 Perot and Choate, pp. 6-7.

54 See Michael G. Wilson, "The NAFTA Debate, Part II: A Primer on Political, Security, and Human Rights Issues," Heritage Foundation *Backgrounder* No. 950, July 19, 1993, pp. 6-8.

55 Perot and Choate, p. 72.

Reality:

For many years, large numbers of Mexican workers have been coming to the U.S., legally or illegally, in search of higher wages and a better life. In 1990, for example, there were approximately 4.5 million Mexican-born residents in the U.S. This number, which does not count all illegal aliens, represents about 21 percent of all foreign-born residents. Germans, with 1.2 million residents, or 5.4 percent of foreign-born residents, make up the second largest group.[56] Moreover, in 1992 alone, the U.S. Border Patrol arrested 1.2 million people attempting to cross illegally into the U.S. from Mexico.[57]

Many people argue that these immigrants have contributed greatly to the U.S. economy and culture, helping businesses survive labor shortages and making the U.S. economy more productive. Others, however, contend that too many illegal immigrants are entering the U.S., straining social services and taking jobs away from American workers.

As economic growth in Mexico leads to gains in wages and living standards, some of the pressure to emigrate to the U.S. will abate. The expected increase in foreign direct investment in Mexico under a NAFTA is estimated to range from $25 billion to $52 billion from 1992 to 2000.[58] As a result, economic growth rates in Mexico under the free trade pact could reach as high as 6 percent a year over the next decade. Such high growth rates will produce an estimated 609,000 new jobs south of the border.[59] Finding jobs in Mexico will eliminate one of the main incentives for Mexicans to leave their homes for the U.S.

These new jobs in Mexico will also pay better wages. With the NAFTA, wages in Mexico are expected to grow by as much as 16 percent in the coming years.[60] The allure of higher-paying and better-quality jobs in Mexico will almost certainly convince many Mexicans to stay at home and contribute to their own economy. Polls indicate that when given a choice between staying in Mexico and working, or illegally crossing the border to work in the U.S., the vast majority of Mexicans surveyed said that they would rather stay in their own country.

By contrast, a rejection of the NAFTA could drive down wage levels in Mexico and slow down the growth in new export-related jobs. This would diminish the standard of living in Mexico, making it more likely that Mexican citizens will cross the border illegally into the U.S. seeking employment. Moreover, if new trade barriers are erected between the U.S. and Mexico, farmers and industries in U.S. border states like California and Texas also will see their businesses damaged and revenues fall. It is possible then that they would be more tempted to hire illegal aliens as a cost-cutting measure, thereby actually increasing the number of illegal immigrants in the U.S.[61]

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56 "U.S.-Mexico Trade: Pulling Together or Pulling Apart?," Office of Technology Assessment, U.S. Congress, January 1993, pp. 116-117.

57 "Mexico: Respect Restored," *The Economist*, February 13, 1993, p. 4.

58 "Investment, Trade, and U.S. Gains in the NAFTA," U.S. Council of the Mexico-U.S. Business Committee, The Council of the Americas, 1992, p. 12.

59 Hufbauer and Schott, *op. cit.*

60 Wilson, *op. cit.* pp. 8-9.

61 Estimates of undocumented immigration are by nature unreliable. However, the total number of illegal residents in the U.S. is thought to be in the range of 2 million to 3 million, increasing at about 200,000 a year. Mexican are believed to make up two-thirds to three-fourths of the undocumented population, with many of the others from elsewhere in Latin America.

Ross Perot and Pat Choate conclude their book by saying: "The first action that is required of Congress is to reject NAFTA. Congress' second action should be to reauthorize the president to negotiate a win-win trade deal with Mexico." [62]

A rejection of the NAFTA would dramatically curtail trade opportunities with America's fastest growing foreign market. It would also result in soured U.S.-Mexico relations and a setback in President Salinas's free market and democratic reform program. Moreover, a failure of the free trade agreement would not only halt the spread of free trade in the rest of Latin America and the Caribbean, but dampen as well the prospects for reaching an agreement in the Uruguay Round of the General Agreement on Tariffs and Trade talks in Geneva.

Belief in America. NAFTA opponents believe that America cannot compete in the global market. NAFTA supporters, on the other hand, believe in America's strength and ability to compete. The choice, therefore, is clear: does the U.S. wish to risk job loss and possibly economic depression as the result of isolationism and protectionism? Or does the U.S. want to take a leadership role in the global economic community, seeking out new markets for its goods and investments, thereby making America more competitive and creating new, higher-paying jobs?

For Robert Matsui, the California Democrat, and Jim Kolbe, the Arizona Republican, the choice is clear. As they stated in a May 28 letter to Perot, "Growing trade is an important engine of economic growth. What greater proof of this is there than the period of prosperity that has been enjoyed by the United States and the West since World War II....Circling the wagons and ignoring our trading partners will not only hurt us competitively, but will also disadvantage our whole region as a trading force in the international market. We firmly believe that NAFTA will promote growth and employment in our country...and continue our role as the dominant and competitive force in the world."

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62 Perot and Choate, pp. 102-103.