



## NORTH AMERICAN FREE TRADE SPECIAL

**NAFTA Side Accords Signed by Clinton.** Bill Clinton and Mexican President Carlos Salinas de Gortari signed the side accords to the North American Free Trade Agreement (NAFTA) on September 14. For the Clinton Administration, the signing marks the beginning of its campaign to convince Congress and the American people that the NAFTA will create jobs, help protect the environment, and make the United States more competitive in foreign markets. The side accords on environmental and labor standards were one of the White House's preconditions for fully supporting the free trade pact. Now that they have been concluded, said Clinton, the NAFTA "is a good deal and we ought to take it." He added that, while some jobs will be lost, the free trade pact will produce a net gain of 200,000 higher-skilled, export-related jobs in the first two years of its implementation. Administration officials also promised that the NAFTA will not take a back seat to Clinton's health care and government reform programs.

In an unprecedented show of support for a legislative initiative, Clinton was flanked during the NAFTA ceremony by three former U.S. Presidents—Gerald Ford, Jimmy Carter, and NAFTA architect George Bush. Also in attendance at the White House were most of the Clinton Cabinet, thirteen governors, four mayors, numerous business executives, diplomats, and Republican and Democratic congressional leaders.

The bipartisan gathering of NAFTA defenders at the White House demonstrated that the battle lines on the agreement 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 and that the U.S. will profit greatly from agreements like the NAFTA. Opponents of the free trade accord, however, led by such unlikely and diverse individuals as Texas billionaire Ross Perot, conservative commentator Patrick Buchanan, civil rights activist Jesse Jackson, and consumer interest advocate Ralph Nader, worry about the U.S. ability to compete with other countries. They believe that opening U.S. markets to foreign goods greatly harms U.S. workers and the economy. Some also argue that U.S. sovereignty and security will be threatened if the NAFTA goes through.

Coming down firmly on the side of the NAFTA and free trade, Clinton told the attendees at the White House that "In a fundamental sense, this debate about NAFTA is a debate about whether we will enhance [global economic] change and create the jobs of tomorrow, or try to resist these changes, hoping we can preserve the economic structures of yesterday." Bush, whose Administration negotiated the original NAFTA agreement and who signed it last December 17, told the audience that NAFTA opponents are "taking

the cheap and easy way out," and that if the historic free trade package fails, "the biggest loser, in my opinion, would be the U.S." He also added that NAFTA would help institutionalize the Salinas government's free market and democratic reforms, thereby making Mexico a more prosperous and stable neighbor. Ford agreed with Bush, stressing that the NAFTA would greatly diminish illegal immigration into the U.S. because it would produce new and better paying jobs in Mexico. Carter used the occasion to attack Ross Perot, NAFTA's number one critic, arguing that Perot is "careless with the truth [regarding the NAFTA] and is playing upon the fears of working Americans."

**NAFTA and the Congress.** Following the NAFTA side accord signing ceremony, Clinton received widespread praise for finally taking the initiative on the free trade agreement. In Congress, however, the strongest praise for the Democratic President came from the Republican Party. At a news conference soon after the NAFTA signing, thirteen Republican Senators, led by Senate Minority Leader Robert Dole (R-KS), pledged their support for Clinton and the trade pact, predicting that the NAFTA would be approved by Congress this year. They also stressed that they expect at least 35 of the 44 Senate Republicans to back the agreement. Said Dole, "President Clinton hit it out of the ballpark. No one can now doubt the commitment of [the President] to the agreement." He also added that "We are finally on the offensive" and that the President should send the NAFTA to Capitol Hill as soon as possible.

Accompanying Dole at the Senate news conference were such NAFTA backers as John Danforth (R-MO), Phil Gramm (R-TX), Thad Cochran (R-MS), Alan Simpson (R-WY), and the newly elected Kay Bailey Hutchison (R-TX). Danforth called it a "great day for NAFTA," with Gramm adding that NAFTA supporters are "late getting started and that the opposition is clearly ahead, but we are going to win." Hutchison also stated that the NAFTA "will give [the U.S.] the leverage to make sure that environmental and labor issues are addressed in Mexico" and that the agreement should be extended "from Canada to the tip of South America to strengthen [America's] economy and competitiveness." Other Senators also urged support for the free trade agreement, stating that it will help address many of the concerns over illegal immigration, drug trafficking, and democracy in Mexico. Anti-NAFTA Senate Democrats, including Donald Riegle of Michigan, Howard Metzenbaum of Ohio, and Barbara Boxer of California, also held a news conference on September 14 at which they denounced the agreement. During their statements, Riegle called the proposed agreement a "loaded gun aimed at the workers of this country."

The danger for the NAFTA will not be in the Senate, but in the House. NAFTA opponents there, including Democrat Whip David Bonior of Michigan and Marcy Kaptur of Ohio, held their own news conference following the White House ceremony denouncing the NAFTA as an "investment agreement" that will encourage U.S. companies to relocate to Mexico to take advantage of cheaper labor.

House Majority Leader Richard Gephardt (D-MO) further undermined the agreement in the House by announcing on September 21 that he would vote against the NAFTA. According to Representative Robert Matsui (D-CA), co-chairman of the House pro-NAFTA caucus, only about 65 of the 258 Democrats in the House are now backing the trade pact, with another 80 or 90 still uncommitted. On the Republican side, Representative Jim Kolbe (R-AZ), another leading NAFTA, claimed on September 14 that there are now only 80 sure votes for the NAFTA out of the 175 Republican House members. This is down from 120 sure votes for the NAFTA only a few months ago. Matsui hopes to get anywhere from 120 to 130 Republicans in order to obtain the 218 majority needed to pass the agreement. When questioned on the timing of the NAFTA, he stated: "I think we're going to win this debate when we take the vote 60 days from now. We believe that we're going to hold the vote this year. We probably will adjourn some time after Thanksgiving, so we'll have ample time to be able to take this up. ...I don't foresee any circumstances where we'll miss the deadline and go into 1994, which probably would not be good, because it is an election year."

**Perot Releases Anti-NAFTA Book.** Leading NAFTA critic Ross Perot recently released a book titled *Save Your Job, Save Our Country: Why NAFTA Must be Stopped—Now!* The 142-page book, co-written with economist Pat Choate, an advocate of managed trade, argues that the U.S. has been "outtraded" by Mexico and Canada in a "secret deal" that will undermine the U.S. economy. Perot and Choate claim that cheap Mexican wages will pull millions of high-paying American jobs south of the border and that the U.S. manufacturing base will be wiped out.

Perot and Choate call the NAFTA a "drastic and unfair scheme" that will pit American and Mexican workers "in a race to the bottom." It also contends, as does NAFTA opponent 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 lobbyists, all paid for by foreign governments and multinational corporations.

Perot's main argument about lower wage levels in Mexico luring U.S. plants south of the border is greatly exaggerated and in most cases wrong. While the NAFTA may attract some low-wage firms across the border, virtually all independent experts agree that the free trade accord will lead to a net increase in jobs in the U.S. as Mexico lowers its tariffs on U.S. exports. Moreover, wages in Mexico are not nearly as low as many people believe, and low Mexican productivity often erases much of the wage advantage anyway. Meanwhile, the Perot book, which most independent economists and trade experts characterize as simplistic and full of

inaccuracies, overlooks the many factors other than wage levels that actually drive business decisions and the location of factories. These include the high cost of moving factories to Mexico, worker absenteeism, a lack of good education, political instability, limited access to raw materials, and 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.

## MEXICO PROJECT AT HERITAGE

**NAFTA Lectures.** The Heritage Foundation hosted a September 22 lecture by Representative Henry Bonilla, the Republican Congressman from Texas and an ardent supporter of the NAFTA. The lecture by Bonilla was part of the Third Annual Heritage Foundation Hispanic Lecture Series and was co-sponsored by The Heritage Foundation's Mexico Project. During his presentation, Bonilla discussed the benefits that the NAFTA will bring to the U.S. economy, and why the House of Representatives should ensure passage of the agreement this fall. He also stressed that the NAFTA will produce new, higher paying, export-related jobs in the U.S. By eliminating Mexican trade barriers, which currently are much higher than those imposed by the U.S. on Mexico, the NAFTA will level the playing field. This will greatly expand U.S. exports to Mexico, which have already increased from approximately \$12 billion in 1986, when Mexico began lowering its trade barriers, to around \$40 billion today. This two-way trade currently accounts for some 700,000 jobs in the U.S.

**Recent Publications:** Douglas Seay, "Why Conservatives Should Support the NAFTA," Heritage Foundation *Executive Memorandum* No. 366, September 27, 1993; Michael G. Wilson, "Setting the Record Straight: Evaluating Ross Perot's Allegations About the NAFTA," Heritage Foundation *Background* No. 959, September 30, 1993; Wesley R. Smith, "Assessing the NAFTA Side Agreements," Heritage Foundation *Background* No. 960, September 30, 1993; The Honorable Phil Gramm, "NAFTA: The Engine of Freedom in the Americas," Heritage *Lecture* No. 465, July 27, 1993; Michael G. Wilson, "The NAFTA Debate, Part 2: A Primer on Political, Security, and Human Rights Issues," Heritage Foundation *Background* No. 950, July 19, 1993; Marshall J. Breger, "Trade on Trial: NAFTA in the Dock," Heritage Foundation *Background Update* No. 199, July 12, 1993; Douglas Seay and Wesley R. Smith, "Why the Governors Support the NAFTA (and Washington Doesn't)," Heritage Foundation *Background* No. 946, June 15, 1993; and Wesley R. Smith, "The NAFTA Debate, Part I: A Primer on Labor, Environmental, and Legal Issues," *Background* No. 936, April 9, 1993.