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Debunking the myths surrounding the NAFTA debate

By Paul Drazek & Mechel Paggi

Much of the opposition to the proposed North American Free Trade Agreement is grounded in myth. The myths are fostered by opponents who cite NAFTA's alleged effects on jobs and the environment. They say NAFTA will result in a flood of Mexican commodities, devastating the U.S. economy—including agriculture.

While these are just some of the myths being used to oppose NAFTA, they are powerful ones. Any changes in existing trade relations cause concerns. But the potential advantages of a successful NAFTA for the overall U.S. economy, and agriculture in particular, make it critical that people's decisions to support or oppose it be based on reality, not on myths. Here are some of those myths, followed by the facts about those issues.

Myth: The United States will suffer massive job losses as U.S. companies fly south to take advantage of cheap labor in Mexico.

Fact: For the most part, all people are told about this myth is that manufacturing workers in Mexico make about \$1.95 per hour while U.S. workers average around \$14.50. How could a business not afford to move to Mexico? Two things are usually not discussed in this argument. First, labor costs are only part of the equation when companies decide where to locate. Many other variables enter the equation, including productivity, availability of raw materials and energy, transportation costs and marketing infrastructure. Otherwise, all those jobs would already be gone. Nothing is stopping them from leaving now.

Mexico's situation is similar to that of other developing countries—short of infrastructure, skilled workers, experienced managers and entrepreneurs but long on cheap labor in a world where cheap labor is becoming less important. In 1991, for example, less than one-third of the major investments abroad by U.S. companies went to countries with low labor rates.

Another element is that the cheap



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labor argument assumes that a job created in Mexico takes one away from the United States. In fact, the result of a successful NAFTA will be to create income and employment in both countries. U.S. trade with Mexico has changed from a \$5.6 billion deficit in 1987 to a \$5 billion surplus in 1992. The result has been more U.S. jobs.

There will be some areas where low-skilled jobs will move from the United States. The result of a successful NAFTA likely will be that those jobs go to Mexico instead of Asia or some other lower wage area. And from that will come increased purchases of U.S. products by those Mexican workers. Some assistance to help in this adjustment will be forthcoming in the NAFTA side agreement on labor now being negotiated. But the reality is that a success-

ful NAFTA will increase overall employment in both countries.

Myth: U.S. firms will move their operations to Mexico to avoid strict U.S. environmental laws.

Fact: Mexico's General Law of Ecological Equilibrium and Environmental Protection enacted in 1988 is roughly the same as U.S. laws and regulations. In 1992, the Mexican Congress created the Secretariat of Social Development, the government ministry charged with environmental policy formulation and enforcement—essentially the Mexican EPA. The environmental hurdles that companies wanting to locate in Mexico will have to jump will likely be no lower than those in the United States.

Opponents say it doesn't matter if Mexico has strong environmental laws and regulations because they are not enforced. The track record of Mexican President Salinas suggests just the opposite. Since Salinas took office, Mexico's environmental budget has increased 700 percent. The number of environmental inspectors has increased to more than 300. There have been suspensions of operating licenses and closures of 1,926 facilities for non-compliance with environmental regulations. More than 100 facilities have been closed permanently in an attempt to curb pollution in Mexico City. These are not the actions of a country unconcerned with enforcement of environmental rules and regulations.

In addition, the side agreement on the environment will provide an enforcement mechanism. In a recent proposal by a number of prominent environmental groups, the side agreement would result in the creation of a North American Commission on the Environment (NACE). One of its main functions will be to monitor the performance of countries in complying with environmental laws and regulations. When complaints of abuse or non-compliance are made, NACE would investigate and suggest a course of action.

A successful NAFTA will help Mexico continue to make progress in the area of environmentally sound resource management. A Princeton University

study indicates that pollution levels began to decrease in 42 countries when per capita GDP increased from \$4,000 to \$5,000. If NAFTA could boost Mexico's current GDP of about \$3,700, it undoubtedly will provide access to greater resources for environmental protection purposes.

Myth: NAFTA will allow a flood of Mexican commodities into the U.S. thereby "devastating" American agriculture.

Fact: Between the limitations on Mexican agriculture and the lengthy transition period to free trade under NAFTA, there is unlikely to be a "flood" of any product from Mexico. Besides, Mexico is now the third largest and most rapidly growing export market for U.S. farm commodities. The fact that we already run a \$1.5 billion trade surplus with Mexico in agriculture (despite Mexico's much more restrictive tariffs and quotas) is a strong indication that our trade surplus will continue to grow under NAFTA. Rapid population and income growth combined with limited natural resources will prevent Mexican agriculture from keeping pace with a growing demand for food and fiber.

Myth: The Dallas Federal Reserve Board said NAFTA would reduce U.S. farm income.

Fact: It did no such thing. The Dallas Federal Reserve report on agricultural trade attempted to determine what would happen under a trade agreement (not NAFTA) in which the U.S. gave up all domestic farm support programs. NAFTA does not address domestic farm supports. The Dallas Federal Reserve report is being used to mislead farmers into opposing NAFTA. It is interesting that a report by the Federal Reserve Bank of Kansas City, generally positive about the benefits to agriculture from NAFTA, has not been widely quoted by opponents.

Myth: The "accession" provision of NAFTA will allow many other countries to latch onto NAFTA without adequate studies or negotiations.

Fact: The accession clause permits other countries to join NAFTA under terms to be decided by NAFTA members. Membership is not automatic and would require negotiations like those conducted with Mexico and Canada. Congress would have to be consulted

and would have the right to reject any new member.

Myth: Mexico can use pesticides banned in the U.S. and will export unsafe products to our market.

Fact: The Government Accounting Office has found that Mexico's system of registering pesticides and establishing tolerances is very similar to that of the U.S. In fact, Mexico relies heavily, but not entirely, on EPA and FDA for its scientific evaluations of pesticides. GAO cut through many of the false claims and emotional rhetoric on this issue and concluded the following:

- There are 58 pesticides for which Mexico has set tolerances different than U.S. tolerances (in most cases, this means that Mexico and the U.S. both allow a given pesticide but they have established tolerances for different crops).

- There are 17 pesticides for which Mexico has set tolerances where the U.S. has no tolerance. Of these 17, only six are used on products exported to the U.S.

- The majority of tolerance violations by Mexico are found in cases where both countries allow the same pesticide but for different products, rather than where Mexico allows a pesticide and the U.S. does not.

- In any case, Mexican products must still comply with U.S. tolerances when they enter the U.S. (and this will not be affected by NAFTA).

- Mexico long ago banned DDT for use on food products (this dispels one of the more outrageous claims made by some NAFTA opponents). DDT is still being used by the government in southern Mexico to control mosquitoes that cause malaria, but it is not available to the public.

- In 1991, FDA found only one example of a DDT violation on products from Mexico. One violation was also found in testing of U.S. products that year. These violations are due most likely to residues from DDT used many years ago.

The fact is, NAFTA will not lower U.S. food safety standards. Through ongoing bilateral consultations between the FDA, EPA and their Mexican counterparts, Mexican standards and enforcement will improve under NAFTA.

Myth: NAFTA will allow Mexico or Canada to challenge U.S. laws (such as food safety laws and the

Clean Air Act) as trade barriers and have them overturned.

Fact: This is not even remotely true. Laws in any of the three NAFTA countries may be challenged under the dispute settlement mechanism, if they are considered to be illegal trade barriers. But under no circumstance would any U.S. law ever be overturned by NAFTA. Only Congress and the U.S. Supreme Court can do that.

Myth: NAFTA will curtail some U.S. ag exports (e.g., dry beans and potatoes) to Mexico because the current Mexican import licensing system has allowed more imports than the initial levels set under NAFTA.

Fact: Not really. It is important to understand the current Mexican import licensing system and how its elimination under NAFTA will improve U.S. export prospects.

For some staple commodities, the Mexican government determines import levels needed to ensure an adequate domestic supply, and issues the corresponding number of import licenses. In some years, this can mean large imports and in other years little or no imports.

Under NAFTA, Mexico will be obliged to issue licenses to ensure a minimum level of imports from the United States and Canada and this quantity must increase each year until there is no limit to imports from those two countries.

Even though the level of imports required under NAFTA in the first year appears less than actual imports in recent years, this is misleading for two reasons: first, actual imports next year without a NAFTA could be zero (if Mexico has a good crop), and second, if Mexico needs to import more than the amount required under NAFTA, it will do so simply by issuing more licenses. In other words, NAFTA ensures a minimum level of access each year but does not prevent Mexico from buying more, if necessary (just like under the current system).

Finally, after the transition period under NAFTA, the U.S. and Canada will have totally free access to the growing Mexican market, and preferential status over all other countries. It makes no sense to oppose such a deal.

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