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OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

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To: Sen. Robert Dole

From: Nancy A. LeaMond

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Message:

ATTENTION: TRADE LEGISLATIVE ASSISTANT

Please see the attached press statement on the Perot/Choate
NAFTA Book.

A more detailed response will be available shortly.

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* Contact: If there are any problems, please call *
* Congressional Affairs at (202) 395-6951. *

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**Statement of Ambassador Mickey Kantor
United States Trade Representative**

NAFTA AND THE PEROT-CHOATE BOOK

With the supplemental agreements completed last month, the public and Congressional debate over NAFTA begins in earnest. It is important to cut through the mountain of misinformation and sheer lack of understanding of this complex issue to recognize what is at stake in NAFTA.

The foremost commitment of President Clinton and his Administration is to build the strongest, most competitive economy in the world, to create new and better job opportunities for United States workers and for their children who will be entering the work force.

All our initiatives work together in pursuit of that overriding objective. We started with the President's economic program: making our nation more competitive and productive by bringing down the deficit and increasing investment. We are following with the drive to reform the health care system and the effort to re-invent government. We recognize that trade agreements are no substitute for dealing with fundamental domestic problems that have weakened our economy and our country for too long.

But in the intensely competitive global economy, a trade policy is an indispensable part of our economic strategy. The President and I have repeatedly stated the objectives of our trade policy: to compete, not retreat behind our borders, and to ensure that the markets of other countries are as open to our products and services as the U.S. market is to theirs. Our prosperity, and that of our children, depends on our ability to compete and win in a global marketplace. We will not accept an unbalanced trading relationship, and we will no longer subordinate our economic interests to foreign policy and defense concerns.

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The companies, farmers and workers of the United States are world-class competitors. We lead the world in everything from computers and telecommunications to financial services and soybeans. We have regained our position as the world's leading exporter. But assuring that markets are open for our manufactured goods, our services, and agricultural products is absolutely critical to building our economic success.

This Administration did not negotiate the NAFTA. Moreover, Bill Clinton as a presidential candidate was critical of the economic and trade policy of his predecessors. When we studied NAFTA during the presidential campaign, we approached it skeptically. There were powerful political reasons for opposing it.

But when we studied it further, we found that NAFTA---strengthened by supplemental agreements---would be in the economic interest of the United States. It is not a favor for Mexico. It is a good deal for American workers, companies and farmers. And it is an important piece of an economic strategy to build a high-wage, high skill competitive economy.

The administration has the responsibility to convince Congress and the country that NAFTA is in our economic interest, and we intend to do so. We will succeed because we have the facts on our side, but also because we understand---at least as well as our opponents do---the fears of American working people that their economic future, and their children's, are not secure; that their standard of living has declined; and that their prospects are diminishing. NAFTA is part of the solution, rather than part of the problem, and we intend to show it.

I have spent a significant amount of time over the last few days reading through and thinking about the Perot/Choate book. The book contains several major themes with which I fundamentally disagree:

PEROT CHOOSES THE STATUS QUO OVER CHANGE

In opposing the agreement, Perot is opting for the status quo which operates to the disadvantage of U.S. workers and companies and the environment. Despite Mexican progress in voluntarily opening markets, Mexican tariffs remain, on the average, 2 1/2 times higher than ours. Numerous Mexican non-tariff barriers, such as performance and trade balancing requirements, force U.S. companies to move to Mexico in order to sell there. Maquiladora industries distort U.S. business decisions to the disadvantage of U.S. workers. The lack of intellectual property protection hampers our motion picture and recording industries, as well as computer software and others. Meanwhile, Mexico enjoys virtually unlimited access to the U.S. market.

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This unacceptable status quo is what the opponents would lock in. Our alternative is NAFTA, which brings down Mexican trade barriers, levels the playing field for U.S. companies and workers; it will no longer be necessary for companies to move to Mexico to sell there. The Big Three auto companies, which presently export only 1,000 cars to Mexico annually, predict an increase to 60,000 cars from the U.S. in the first year. Through the supplemental agreements, NAFTA gives us new ways to insure that Mexico will enforce the strong environmental protection and labor laws that it has on the books.

PEROT CHOOSES PROTECTIONISM AND DEFEATISM OVER EXPANDED MARKETS AND EXPANDED GROWTH

Perot--by opposing NAFTA--chooses a defeatist path which will reduce U.S. economic growth and job creation. In the past few years, export-led growth has been the brightest spot in the U.S. economy. Mexico, and Latin America beyond it, represent potential markets of 400 million people. By calling for the defeat of NAFTA, and in fact advocating higher tariff walls against products from Mexico, Perot risks the gains we have seen, as well as additional gains we expect from NAFTA and the completion of the Uruguay Round.

In seeking to raise the walls around our economy, Perot ignores the lessons of history. More than 60 years ago, when our economy was much more self-contained, the United States tried to insulate ourselves from competition through high tariffs. The Smoot-Hawley tariff contributed to the Great Depression. Today, with about one quarter of our economy involved in trade of goods and services, the course of action Perot advocates would be devastating to the U.S. and the world economy.

This is clearly the wrong path for America. The issue before us is simple: how do we create good jobs and competitive industries in a rapidly globalizing economy. We believe this can only be done by reaching outward, not looking inward, and by opening the markets of the future. As President Clinton has said, we must compete, not retreat behind our borders.

PEROT THINKS AMERICAN WORKERS CAN'T COMPETE

At the heart of Perot's book is the belief that U.S. workers can't compete with low wage countries like Mexico. President Clinton believes that American workers and businesses can compete anywhere that the rules are fair and markets are open.

Wages are one factor, but they are not alone determinative. We compete based on the productivity and the skills of our workers, the excellence of our products and services, and the strength of our transportation and communications system. That is the formula for success that

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Germany and Japan have followed, and that is the natural path for our country.

It was certainly hard to compete when Mexico's markets were completely closed to our products, as they were prior to 1986. But since Mexico began opening its markets, we have transformed a \$5 billion trade deficit with Mexico into a \$5.4 billion trade surplus. Mexico has already become our third leading export market, and the second leading market for our manufactured exports. We have succeeded even though Mexican trade barriers---tariff and non-tariff---remain far higher than ours. This is clear evidence of our ability to compete.

PEROT RELIES ON INACCURACIES, ERRORS, AND MISLEADING STATEMENTS

Beyond the major misconceptions in the Perot/Choate book, it is riddled with inaccuracies, errors, and misleading statements-- we have identified 193. Among the most serious:

- o Perot states that 5.9 million jobs are "at risk" because of NAFTA. The methodology for reaching the 5.9 million figure is fundamentally flawed. The authors simply identify, from Census data, industries where wages account for more than 20 percent of the value of output. Under the Perot/Choate scenario, the "at risk" jobs include high wage, high skill jobs in our most competitive sectors, including aerospace, medical equipment, and sonar equipment--sectors where we are in no danger of losing jobs and in fact will increase employment with NAFTA. The authors also describe as "at risk" jobs which face no competition from Mexico such as bakers and wood-pulp millers.
- o The book quotes the previous Secretary of Labor stating that NAFTA will cost 150,000 U.S. jobs. The book ignores the fact that the same Secretary of Labor, during the same hearing and citing the same study, went on to say the NAFTA will create 325,000 jobs--a net increase of 175,000.
- o Perot states that NAFTA will lower U.S. health and environmental standards. In fact, nothing in the NAFTA could even be construed as lowering any federal, state or local standard. NAFTA specifically insures the ability of each country, including its state and local governments, to maintain as stringent environmental and health standards as it considers appropriate. Moreover, the supplemental agreements include specific commitments from the three nations to harmonize standards upwards--not downwards.
- o Perot claims that the U.S. auto industry is on the "endangered" list. In fact, an independent study done by the Congressional Budget Office shows that U.S. auto companies and workers will both gain under the NAFTA, thanks to the dismantling of the Mexican performance, trade balancing, and local content requirements, as well as the elimination of Mexico's current 20% tariff on auto imports.

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Indeed, an Office of Technology Assessment study found that the total cost of delivering a car to the U.S. market is higher for a plant in Mexico than for one located in Michigan--despite the wage differential.

- o The book has it 180 degrees wrong on the subject of NAFTA and Mexico's Maquiladora program. Contrary to the Perot book claims, NAFTA does not extend the distortions of the Maquiladora program, it eliminates them. If we do not pass the NAFTA, all of the things the book claims not to like about the Maquiladora program will simply continue, instead of being phased out.
- o The book plays fast and loose with statistics to paint a false impression that Mexican wages are declining, when in fact those wages are rising. The book says that real Mexican wages have dropped by 50 percent during the last ten years. The truth is that Mexican wages rose during the oil boom of the 1970s then declined from 1980 to 1987 because of the debt crisis and runaway inflation. Since 1987, however, when Mexico began opening its markets and reforming its economy real wages have risen by 27 percent and most recently, Mexico's President announced that Mexico would require the minimum wage to rise with productivity increases.
- o The book creates a thrilling-but fictional-scenario about the Administration sneaking an extension of fast track authority for NAFTA through the Congress this year. In fact, fast track authority for NAFTA was obtained after a spirited and extended public debate in 1991, and no extension was needed for NAFTA. This year's fast track extension pertained only to the Uruguay Round of the GATT.
- o The book claims that NAFTA jeopardizes the safety of American travelers by opening U.S. roads to trucks and drivers who do not meet U.S. minimum safety standards. In fact, no provision of NAFTA exempts Mexican and Canadian vehicles or drivers from U.S. environmental or safety standards. This means that Mexican trucks must comply with all U.S. regulations on length, weight, and disclosure for transport of hazardous materials. Each country retains the right to enforce standards that are more stringent than standards in effect in other countries.
- o The book states that the NAFTA deal on agriculture is a terrible deal. In fact, U.S. agriculture and the American farmer are big winners under the NAFTA. Conservative estimates show an expected increase of between \$2.0 to \$2.5 billion in U.S. agriculture annually by the end of the NAFTA transition period. Those exports alone will create over 50,000 new farm related jobs in the United States and boost farm incomes.
- o The book claims that NAFTA has the potential to increase

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immigration, not decrease it. In fact, nothing could be more important to reducing immigration to the U.S. from Mexico than increasing economic opportunity in Mexico. Even the Economic Policy Institute, which opposes NAFTA and is a major source for the Perot/Choate book, claims NAFTA will reduce immigration by more than 1.4 million person in the next six years.

A more detailed compendium of misstatements is attached.