dsG DEMOCRATIC STUDY GROUP • U.S. HOUSE OF REPRESENTATIVES
202-225-5858 • 1422 LONGWORTH BUILDING • WASHINGTON, D.C. 20515

HON. MIKE SYNAR (OK) — Chairman SCOTT LILLY — Executive Director

FACT SHEET

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NAFTA

This DSG Fact Sheet deals with H.R. 3450, North American Free Trade Agreement Implementation Act, which the House is scheduled to consider on Wednesday. The bill approves the North American Free Trade Agreement and implements the agreement by making necessary and appropriate statutory changes in U.S. law.

The legislation, submitted by the Administration, is being considered under "fast-track" procedures that require expedited consideration and prohibit amendments. The Rules Committee is scheduled to meet on Tuesday to grant a rule, which is anticipated to limit debate to six to eight hours and waive points of order under the Budget Act.

The measure is supported by most business groups and is opposed by labor, civil rights, human rights, certain business, and other groups — with environmental and agriculture groups split over the issue.

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Section IX

Arguments For & Against NAFTA

This section summarizes the arguments being made by supporters and opponents of the North American Free Trade Agreement (NAFTA). (See note at the end of the section.)

Arguments FOR NAFTA

Supporters of NAFTA argue that the agreement marks a break with the mistakes made in past agreements which distributed benefits to foreign trading partners at the expense of the U.S. economy. This agreement provides enormous advantages to the U.S. economy. Other countries must lower their tariffs and other trade barriers more than ours. Mexico will have to cease its Auto Decree that has largely prevented cars made in the United States from being sold in Mexico. Other countries must make changes to accommodate and protect the rights of our investments in their countries, while our rules will stay the same. Other countries will have to begin paying for the rights to use the intellectual property rights of our businesses and artists, while our rules will stay the same.

The agreement is a bold, new step because it breaks ground in bringing services (especially financial services), intellectual property rights, and investment rights into the trade agreement. It is an economic policy that does not look to protect the failed policies of the past, but directs the U.S. economy to take advantage of the burgeoning growth in global trade. NAFTA will also lock in the reforms already undertaken by Mexico, which has had a long history of economic repression. Furthermore, the agreement will solidify the growing relations between the two countries.

One example of how it would reap large gains for the United States, and do so in a way that does not threaten even the least competitive jobs, is the guarantee of intellectual property rights. U.S. investors holding patent rights, especially those like pharmaceutical companies that invest heavily in developing new products, would have to be paid for the use of their rights. Publishers, recording companies, artists, writers, and TV and radio broadcast companies would be protected from unlicensed use of their products.

Gains from Trade

NAFTA has been negotiated to deliver enormous gains to U.S. exporters and investors. Greater exports to Mexico will allow the United States to produce more of the goods and services it is best at producing, and less of the things that can more cheaply be purchased abroad. This constitutes an improvement in efficiency and is the economic basis for the gains from trade that will benefit both the U.S. and Mexican economies.

Arguments FOR NAFTA (cont.)

An expansion of U.S. exports will also generate more employment in higher-wage sectors of the economy. Jobs in the export sector pay 12% higher than the average for the whole economy. Likewise, better conditions for U.S. investment in Mexico will mean greater opportunities to improve the competitiveness and profitability of U.S. business. A more profitable business is more likely to be a growing business, and fewer business failures will mean fewer job losses. Consumers too will benefit, due to lower prices on goods and services imported from Mexico.

Under current law, U.S. tariffs and trade barriers against Mexico are very low and are zero for many goods. Mexico, on the other hand, still maintains significantly higher tariffs and barriers. The agreement, which eliminates many barriers immediately and nearly all of them over time, will not offer much help for those selling Mexican-made goods in the United States. U.S. producers that are already competing with Mexican imports will not suffer a sizable loss of their cost advantage.

On the other hand, U.S. exporters will gain a major advantage in selling in Mexico. NAFTA will lower tariffs on goods from the United States and Canada, but not on goods from European, Japanese, and other Asian competitors. Thus, it will shift advantage to U.S. producers and away from other foreign producers. U.S. exporters will sell more goods and receive a higher price (since the price will no longer reflect the tariff). This will raise output in the United States and, in turn, generate more high-wage jobs. It also will lead to further improvements in the U.S. trade balance with Mexico.

U.S. auto markets are especially big winners under this agreement. Under the current Mexican law known as the "Auto Decree," autos must generally be made in Mexico in order to be sold there. This restriction would be phased out under NAFTA, allowing more vehicles to be made in the United States and then exported to Mexico. This would offset fears that increased output by U.S. auto factories in Mexico would displace jobs here at home.

Gains from Trade in Services

Opening Mexico's markets to U.S. services will allow the highly advanced U.S. service sector to extend their business operations into Mexico. This will be especially beneficial for the financial sector. It will allow U.S. banks, securities firms, and insurance companies to invest in Mexico for the first time in 50 years. The U.S. financial sector is the most advanced in the

Arguments FOR NAFTA (cont.)

world, and will successfully compete in the Mexican market where their counterparts are less innovative and efficient. The benefits gained by U.S. financial concerns will in no way jeopardize jobs in the United States.

NAFTA also will open up Mexico's telecommunications market to U.S. businesses offering enhanced telecommunications services such as on-line databases. This is another example of how the U.S. services sector will benefit by providing newer, less expensive services in Mexico, without threatening jobs back in the United States.

Benefits from Improved Foreign Investment

The agreement will offer important guarantees for U.S. investors in Mexico. It prohibits the Mexican government from expropriating their operations (without proper compensation), and guarantees that profits, dividends, interest, royalties, and capital gains can be transferred back to the United States at market exchange rates. (In the early 1980s, the Mexican government had forcefully converted the dollar holdings of many U.S. investors into pesos and allowed them to be transferred back to the United States only at a lower, government-set exchange rate.)

U.S. corporations already engage in a great deal of foreign investment, which moves production facilities outside the country in order to avoid trade barriers, use certain raw materials, or take advantage of low wages in poor countries. These incentives are strong, and they are not going to go away. NAFTA, however, will help direct these foreign investment flows toward Mexico by making it relatively more hospitable than other developing countries.

Foreign investment in Mexico will feed back into the U.S. economy in ways that foreign investment in other countries would not. When U.S. firms start up production in Mexico, they will be more likely to import equipment, raw material, and the parts used in production from the United States than if that production site were located faraway. In addition, when U.S. foreign investment is made in Mexico, it also will help raise Mexican incomes and, in turn, the demand for U.S. exports. Since the U.S. share of imports in Mexico is larger than any other country's, directing foreign investment towards Mexico will increase the demand for U.S. goods and services.

Arguments FOR NAFTA (cont.)

Together, the expansion of trade and the improvement in foreign investment will produce higher standards of living in both the United States and Mexico. In the United States, more workers will find jobs in higher-paid sectors of the economy, and consumers will pay lower prices on goods imported from Mexico.

In Mexico, investment inflows will provide many new jobs and modern, high-productivity facilities. Higher productivity will create the possibility of higher wages, and the increase in these new jobs will provide the market pressure to make sure higher wages happen. As consumers, Mexicans also will benefit from lower prices on goods imported from the United States and Canada. This undoubtedly will raise living standards, leading to greater demand for U.S. products and reducing the flow of immigration from Mexico into the United States.

Now is the Time

Now is the time to pass NAFTA. Failure of the agreement to pass will deeply harm the political forces in Mexico that came together to support trade liberalization and closer foreign relations with the United States. Once it has been undercut, these forces may not be able to come together again.

Similarly, the failure to pass NAFTA will set a dangerous precedent as the United States continues negotiations in the Uruguay Round of GATT.

If the United States does not take advantage of this moment of opportunity, then it will leave open the possibility that one of our major trading competitors, coming from Asia or Europe, will the seize the chance and make its own free trade agreement with Mexico. Such a development would give our competitor a foothold in North America and the Western Hemisphere.

Instead, passage of NAFTA would provide the United States with its own trading bloc, to counter the establishment of the trading bloc in Western Europe and the possible formation of one in East Asia. Trading blocs allow nations to expand their markets and pick up the gains from producing at higher and higher levels of output.