REVIEW OF TRADE AND INVESTMENT LIBERALIZATION MEASURES BY MEXICO AND PROSPECTS FOR FUTURE UNITED STATES-MEXICAN RELATIONS

Investigation No. 332-282

PHASE II: Summary of Views on Prospects for Future United States-Mexican Relations

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EXECUTIVE SUMMARY

On October 18, 1989, the Committee on Ways and Means, U.S. House of Representatives, requested the U.S. International Trade Commission to conduct a two-part study to provide (1) a comprehensive review of Mexico's recent trade and investment reforms and (2) a summary of experts' views on prospects for future United States-Mexican trade relations. In response to the Committee's request, the Commission instituted investigation No. 332-282, under section 332(g) of the Tariff Act of 1930. Phase I, *Recent Trade and Investment Reforms Undertaken by Mexico and Implications for the United States*, was submitted to the Committee in April 1990.

The current report covers the second phase of the Commission's investigation of the new direction Mexico is pursuing in its trade and investment regime. As requested by the House Ways and Means Committee, the Commission surveyed experts for their opinions on such proposals as a free trade area agreement (FTA), an enhanced dispute settlement mechanism, sectoral approaches, possibilities under the 1987 U.S.-Mexican Framework Understanding and the 1989 Trade and Investment Facilitation Talks (TIFTs), and other options for enhanced United States-Mexican trade relations. Views were obtained by the Commission from U.S. and foreign trade negotiators and other government officials, U.S. and foreign private sector representatives active in business or trade between the United States and Mexico, academics with relevant expertise, and executives of industry associations, labor unions, and other nongovernmental organizations.

Several themes emerged from the views put forth by the many representatives of governments, private industry, and academia who participated in the study. These observations are summarized as follows:

- Although many experts advocated a cautious, "go-slow" approach in negotiations, the overwhelming majority of experts' supported the concept of an FTA as the most appropriate option for the United States and Mexico to pursue for the purpose of enhancing their bilateral trade relationship. Only if an FTA is not possible, did the majority recommend that the two countries engage in sectoral negotiations—and then only as an interim measure to keep moving toward the establishment of an FTA.

- Experts expressed a variety of opinions regarding what should be included in a United States-Mexican FTA but generally agreed that any agreement should be GATT-consistent and comprehensive, addressing not only general market access issues, but also such issues as investment, protection of intellectual property, certain service sectors, product standards and certification, transportation and other infrastructure issues, agriculture, and energy.

- Most experts agreed that negotiation of an FTA could be made more difficult by inclusion of certain contentious or non-trade issues, including labor mobility, foreign participation in Mexican petroleum exploration and extraction, drug interdiction, human rights issues, environmental protection standards, and political reform in Mexico. A majority of participants expressed the opinion that these issues have no place in trade negotiations.

- The general U.S. perception was that market access in Mexico has improved dramatically since Mexico began undertaking economic reforms in 1985, but that many impediments to trade remain that could be appropriately addressed under the auspices of an FTA. The general Mexican perception about market access to the United States can be summed up with the words of one Mexican participant who said, "there has been a past pattern of the United States increasing trade barriers whenever Mexico becomes competitive in a particular industry."

- Most experts noted that although the United States and Mexico have disparate levels of economic development, their economies are also complementary and thus invite closer trade ties for the mutual benefit of both countries. For that reason, only a few participants said that an FTA between the United States and Mexico—a country that is significantly less economically advanced—would be inappropriate or inadvisable.

- Almost all of the experts, whether supporting or opposing the concept of a U.S.-Mexican FTA, acknowledged that any agreement would likely result in job losses in the United States as companies shift their production to lower-cost Mexico. Among those sectors cited as likely to be particularly affected were automobiles and auto parts, apparel, electronics, toys, fresh vegetables, and food processing.

- Persons who were knowledgeable about the current U.S. negotiating approach with Mexico generally agreed that the 1987 Framework Understanding and the 1989 TIFTs laid the groundwork for a United States-Mexican FTA by presenting a good forum for negotiations, improving trade relations, and changing some stereotypical attitudes on both sides of the border. Those few experts who preferred sector accords to an FTA, said the sector accords could be negotiated within the framework of the Understanding and the TIFTs.

- Experts who commented on the implications of a United States-Mexican FTA for third countries generally agreed that such an arrangement could dilute the benefits of the United States-Canada FTA by making Mexican products more competitive than Canadian products in the U.S. market. The Canadian industries identified as being particularly adversely affected are telecommunications equipment, electronic equipment, and power generation equipment. Most participants believed that trade diversion from other Latin American countries and the Caribbean would be minimal, but that the newly industrializing economies of the Far East would probably lose investors to Mexico.

- Most experts were confident that the Uruguay Round would conclude successfully and that potential United States-Mexican FTA negotiations would not frustrate or detract from the Round. The majority of U.S. participants indicated, however, that the United States should not enter into FTA negotiations until the Round is concluded, while the majority of Mexican participants said that negotiations should begin as soon as possible.

United States-Mexico FTA Option

Advantages

The majority of experts said that a comprehensive FTA holds the best prospect for broadening the United States-Mexican trade relationship. Some of the major advantages for the United States of an agreement cited by participants were that it would:

- enhance U.S. competitive advantage among a world of emerging trading blocs;
- improve U.S. access to a growing Mexican market of 85 million consumers;
- benefit specific U.S. industry and agriculture sectors;
- help develop the U.S. border area;
- create jobs in the United States;
- give certainty and predictability to U.S. investors by making Mexican economic liberalization permanent;
- benefit U.S. consumers with lower prices for Mexican products; and
- decrease the flow of illegal immigration into the United States.

Major advantages for Mexico of a United States-Mexican FTA cited by participants were that it would:

- provide "secure" access to the U.S. market;
- increase employment;
- increase Mexican productivity and competitiveness;

- increase and accelerate capital and investment flows;
- allow Mexico to earn foreign exchange to meet its foreign debt burden; and
- lower inflation.

Disadvantages

The majority of participants said that they saw no long-term disadvantages to a United States-Mexican FTA. Those opposing the FTA option, however, were usually vociferous in their opposition. U.S. labor representatives, for example, were concerned about the negative effects that such an agreement might have on the U.S. labor force. A number of experts representing different segments of the U.S. agricultural sector, concerned about negative effects on U.S. domestic production, were also adamently opposed to an FTA. Some of the major disadvantages of an agreement for the United States as cited by participants were that it would:

- adversely affect U.S. workers;
- hurt certain segments of the U.S. agricultural sector;
- hurt the economies of the U.S. border areas;
- have a negative effect on the environment;
- not necessarily improve the U.S. trade balance; and
- enable Mexico to seek exemption from U.S. trade laws.

Major disadvantages for Mexico of a United States-Mexico FTA as cited by participants were that it would:

- provide few benefits for Mexican workers;
- hurt the small Mexican farmer; and
- hurt certain segments of Mexican industry.

Sector Accord Option

The majority of participants did not favor the sectoral approach either as an alternative to an FTA or as a way of achieving broader trade liberalization objectives. They said that, although sector accords would be easier to negotiate than an FTA, they have the disadvantage of being too narrowly focused, thereby making it difficult to balance benefits. Some experts, however, preferred the sectoral approach. Labor representatives, for example, said that sector accords are easier to manage than a comprehensive FTA, thus affording more opportunities to protect workers who could be displaced as a result of increased competition. Others said that the best way to achieve an FTA is on a step-by-step basis, through a series of individual sector accord negotiations.

Experts identified three general sector-specific advantages that are likely to result from freer trade rules: the potential for complementary production, which would allow each country to concentrate on areas of comparative advantage; the possible creation of a strong, synergistic trading bloc which could more effectively counter foreign competition; and an expanded Mexican market. The primary concern expressed by experts for all sectors in both Mexico and the United States was that freer trade has the potential to cost jobs. Other troubling issues included the consequences of lack of intellectual property protection for U.S. products in Mexico; the possibility of foreign domination of Mexican natural resources; price pressure on U.S. products from Mexican imports; and the likelihood that Mexico might serve as a conduit to the U.S. market for other foreign producers.

Following are the advantages and disadvantages of freer trade on certain sectors for the United States and Mexico, as suggested by participants in the investigation.

Agriculture

Advantages:

Would encourage specialization in complementary agricultural production of the two countries. Current Mexican import licensing requirements could be eliminated or revised under an FTA or sector accord. The potential for increased investment in Mexico could reduce industry labor costs and increase the efficiency of the Mexican food processing industry. Mexico could enjoy lower U.S. tariffs and more transparent and equitable phytosanitary measures and marketing orders.

Disadvantages:

The current wage differential between Mexican and U.S. workers would lead to relocation of production and processing activities, thereby eliminating U.S. jobs. Agricultural employment in Mexico might also be adversely affected since more efficient U.S. firms would displace Mexican farmers and force reform of the Mexican ejido system.

Computers, telecommunications equipment, electronics

Advantages:

Would greatly expand the market for computers and equipment and telecommunications equipment in Mexico. Mexico would gain access to technology necessary to compete internationally and to update its telecommunications system.

Disadvantages:

Small Mexican-owned computer equipment and software companies would not be able to compete if all tariffs and nontariff barriers were eliminated.

Energy

Advantages:

Could increase the possibilities for collaborative efforts between U.S. and Mexican firms in drilling or exploration activities; such efforts would also benefit ancillary U.S. suppliers. Mexican experts noted that an FTA could increase access to capital for needed expansion and improvement of facilities.

Disadvantages:

Many U.S. participants recognized the generally strong popular opposition in Mexico to foreign participation in natural resources, such as energy, and suggested that inclusion of the petroleum sector would be a source of conflict in negotiations.

Motor vehicles and parts

Advantages:

Could increase the competitiveness of U.S. motor vehicle and auto parts companies through complementary production. In addition, such regional cooperation would provide a counterweight to other emerging trading groups in Europe and Asia.

Disadvantages:

Representatives of U.S. labor voiced strong concern about job protection. Representatives of U.S. manufacturers expressed the view that unless rules of origin specifying domestic content and environmental and safety regulations were carefully crafted, the benefits of a U.S.-Mexican FTA could accrue to other foreign manufacturers, particularly the Japanese.

Petrochemicals

Advantages:

Would be advantageous for Mexican industry by lowering U.S. tariffs. Mexican and U.S. producers would benefit if certain consuming sectors of the Mexican domestic market were expanded as a result of the FTA. In addition, a regional industry in North America is perceived as a necessary counterweight to competition from other countries.

Disadvantages:

Mexican industry officials were wary of import competition from U.S. producers and advocated a long transition period in order to allow time for adjustment. In addition, there was apprehension that liberalization of foreign investment under an FTA might result in foreign ownership of Mexican feedstock inputs.

Pharmaceuticals

Advantages:

Would allow increased access to the Mexican market for U.S. companies and facilitate technology transfer to Mexican companies.

Disadvantages:

U.S. industry spokesmen worry that FTA negotiations may slow the improvement of Mexico's patent law. As protection for intellectual property is seen as the primary sectoral barrier to U.S. investment in and trade with Mexico, any such slowdown is viewed as a significant disadvantage of FTA negotiations.

Services

Advantages:

Would help expand and make the Mexican trucking fleet more efficient; could increase the quality and timeliness of shipping and lower the transportation costs to both Mexican and U.S. companies. An agreement that allows foreign participation in Mexican financial markets could provide access to lower-cost capital in Mexico. Opening the Mexican insurance industry would provide a lucrative market for U.S. insurance providers.

Disadvantages:

U.S. trucking interests reported several possible disadvantages from too rapid an implementation of an FTA, including strong competition to U.S. trucking firms in both U.S. and Mexican markets because of the wage differential. Mexican service industry analysts also expressed concern about competition from U.S. firms in the financial services sector and concluded that many Mexican companies would not survive FTA liberalization.

Steel

Advantages:

Would help producers in both countries specialize, producing complementary products; demand for such "niche production" would be likely to increase in an expanded Mexican market. In addition, an increase in certain Mexican exports, such as slabs and directly reduced iron, may be beneficial to the United States industry.

Disadvantages:

Mexican producers voiced concern about increased import penetration by competitive U.S. mills. Conversely, U.S. producers suggested that increased imports of

Mexican steel products may adversely affect them by lowering prices. In addition, U.S. producers and consultants noted that Mexico may serve as a conduit to the U.S. market by other foreign suppliers such as Japan, if rules of origin are not strictly written and enforced.

Textiles and Apparel

Advantages:

Would expand export markets for U.S. suppliers if, as suggested by certain U.S. industry spokesmen, there is a shift from production in the Far East to Mexico. Would also encourage national specialization and a more competitive North American industry vis-a-vis other trading blocs. From the Mexican perspective, the elimination or revision of U.S. textile quotas under an FTA agreement would stimulate foreign investment in Mexico's industry.

Disadvantages:

U.S. labor representatives voiced strong concern that inclusion of this sector in an FTA would result in job losses for U.S. workers and could also contribute to exploitation of Mexican workers.

INTRODUCTION

This report is the second and final phase of the Commission's investigation of the trade and investment reforms recently undertaken by Mexico. The bilateral trade and investment relationship between the United States and Mexico is a strategically important one for both countries. It is a relationship promoted, in large part, by a complex set of cultural and economic ties fostered by a common border more than 2,000 miles long. This interdependence means that neither country can avoid being affected by the other's economic, social, and political climate. The relationship is not, however, symmetrical. Mexico's economy is only about 4 percent as large as the U.S. economy. The United States is Mexico's primary export market and its largest supplier of imports, accounting for fully two-thirds of Mexico's trade with the world. Mexico is the United States' third largest trading partner after Canada and Japan, but with United States-Mexican bilateral trade valued at just over $50 billion in 1989, it is a distant third. Moreover, the United States-Mexican relationship has not always been cordial. In the recent past, there have been many disagreements over trade policy. United States officials generally have regarded Mexican policies as highly interventionist, characterized by trade protection, a restrictive investment environment, a large degree of state ownership and control of business, and an overly regulated business climate. In addition, differing foreign policy perspectives on such volatile issues as debt, immigration, and illicit drug trafficking served to complicate further the bilateral trade relationship.

Today, however, the tenor of the United States-Mexican relationship has changed significantly. Since mid-1985, Mexico has undertaken substantial trade and investment reforms in an effort to move away from a policy of import substitution and dependence on oil exports for foreign exchange earnings to a policy of openness to competition, modernization, and export-led growth. As a consequence of its reforms, some long-standing bilateral trade frictions have been reduced or eliminated. As U.S. Trade Representative Carla Hills recently remarked before the House Ways and Means Subcommittee on Trade, "At no time in recent memory have our trade relations been as harmonious as they are today."

Thus, as a result of a process undertaken unilaterally by Mexico for its own internal development, trade relations between the two countries have become increasingly more cooperative and productive. Many government officials, private sector analysts, and businessmen on both sides of the border now believe that Mexico's reforms have created an opportunity to forge closer bilateral ties to the mutual benefit of both countries. A free trade area agreement (FTA) is the option most of these trade experts favor.

In the past, most Mexicans strongly opposed the concept of an FTA with the United States, citing as a major reason the infeasibility of such an agreement between two trading partners of disparate levels of development. Underlying this objection was Mexico's development strategy emphasizing import substitution over export promotion and a fear of domination by the much larger and highly competitive U.S. economy. As late as a year ago, many Mexican Government officials continued to assert that an FTA between the United States and Mexico was an impossibility or an option that might be considered only in the very long term.

Ensuing developments rapidly altered the prospects for an FTA, however. In early 1990, Mexican President Carlos Salinas de Gortari traveled to Europe. Reportedly, the Europeans made it clear that, in spite of the Mexican Government's recent reforms, Eastern Europe was their priority interest in terms of investment. The capital that Mexico needed to fuel its economy and stimulate investment would not, the Europeans intimated, be forthcoming from Europe.

On June 10, 1990, President Bush and President Salinas met in Washington to discuss bilateral relations. The stated purpose of the summit was to explore ways to broaden economic relations between the two countries. The two leaders determined that a comprehensive free trade area agreement would be the best vehicle to achieve their objectives and, accordingly, directed U.S. Trade Representative Carla Hills and Dr. Jaime Serra Puche, Mexico's Minister of Commerce and Industrial Development, to undertake the consultations and preparatory work needed to initiate such negotiations. On August 8th, Ambassador Hills and Minister Serra jointly recommended the formal initiation of negotiations on a comprehensive FTA. President Bush accepted the recommendation and announced that he would notify Congress of the United States' and Mexico's intention to embark on FTA negotiations.

The purpose of this report is to provide a summary of experts' views on options the United States and Mexico might pursue to further broaden their bilateral trade relationship. When this study was initiated in November 1989, an FTA was only one option among several considered feasible. However, the experts' opinions obtained in this phase of the study reflected the rapidity with which the often rejected, previously nebulous concept of a United States-Mexican FTA became widely accepted as a viable mechanism to enhance trade between the two countries. Most of those surveyed in this investigation were so confident that FTA negotiations would be initiated and successfully concluded, that they offered very few other options that the two countries could pursue to further their trade relationship.

The House Ways and Means Committee Request

On October 18, 1989, the Commission received a request from the House Committee on Ways and Means to provide the Committee with a comprehensive review of Mexico's recent trade and investment reforms.[1] As part of this investigation, the Commission was also asked to explore experts' views on prospects for future United States-Mexican relations. In response to the Committee's request, on November 8, 1989, the Commission instituted investigation No. 332-282, under section 332(g) of the Tariff Act of 1930. The investigation was conducted in two parts. Phase I, *Recent Trade and Investment Reforms Undertaken by Mexico and Implications for the United States*,[2] reviewed the liberalization measures undertaken since 1985 and implications for the United States. The Phase I report was submitted to the Committee in April 1990. Phase II, *Summary of Views on Prospects for Future United States-Mexican Relations*, summarizes the opinions of trade experts on possibilities for the future direction of the bilateral relationship.[3]

Methodology

As directed by the Committee, the Commission sought the views of recognized authorities, knowledgeable officials, businesspeople, and labor representatives familiar with United States-Mexican relations. Persons whose views were obtained included: U.S. and foreign trade negotiators and government officials; U.S. and foreign private sector representatives active in United States-Mexican bilateral business or trade; academics with relevant expertise, and executives of industry, labor unions, and other nongovernmental associations.

The Commission obtained views through interviews, formal submissions, and hearing testimony. Direct interviews, the primary research method, were conducted by the Commission with a total of 209 individuals in the United States and Mexico.[4] The Commission received 62 written submissions and conducted three regional hearings, at which a total of 63 witnesses presented their views.[5] (See appendix C for a list of witnesses appearing at the hearings and for a list of submissions.[6]) In addition, on June 14 and 28, the Subcommittee on Trade, House Committee on Ways and Means held

[1] A copy of the Committee's letter of request is contained in appendix A.

[2] U.S. International Trade Commission, *Review of Trade and Investment Liberalization Measures by Mexico and Prospects for Future United States Mexican Relations*, Phase I, April 1990, USITC Publication No. 2275.

[3] See appendix B for *Federal Register* notices relating to the Phase II investigation.

[4] The breakdown of interviews by group includes: U.S. executive branch, 41; U.S. Congressional staff, 3; U.S. academics, 11; foreign government officials, 12; U.S. private sector, 75; other non-governmental experts, 21; foreign academics, 8; U.S. Government officials overseas, 6; and foreign private sector, 32. (Several meetings with association officials were attended by their members. Since the members were generally like-minded in their responses, each of these meetings is counted as one interview. Accordingly, in Monterrey, a meeting with the American Chamber of Commerce had 20 participants but is counted in the interview statistics as one U.S. private sector meeting. Another meeting in Monterrey with the Business Roundtable was attended by 16 participants and is also counted as one U.S. private sector meeting. Finally, a third meeting in Monterrey with two Mexican manufacturers' associations was attended by 10 participants, but is counted as one foreign private sector meeting.)

[5] The Commission held 3 regional hearings in connection with this phase of its investigation. Hearings were held on May 5 in Las Cruces, New Mexico, on May 8 in Tucson, Arizona, and on July 16 in McAllen, Texas.

[6] A number of participants provided the Commission with copies of published articles, texts, speeches, etc., to supplement either their written statements or information provided in the interviews.

public hearings to obtain information on current issues affecting United States-Mexican relations, and on proposals for future United States-Mexican economic relations. Written statements submitted to the Committee in response to its hearings were also included in the Commission's summary of views. Individuals interviewed, submitting written statements to the Commission, testifying at the Commission hearings, or submitting written statements to the House Committee on Ways and Means, are hereinafter collectively referred to as "participants" in the investigation.

Participants interviewed by Commission staff were requested to provide frank and personal opinions rather than official or formal positions of the governments, agencies, associations, or firms by which they were employed. The Commission obtained views on the basis of nonattribution, recognizing that this would be the best method of obtaining the candid views desired. The report therefore employs a minimal level of attribution to protect the confidentiality of participants. However, some identification of the group or background of individuals expressing a particular view has been provided when such delineations were possible and meaningful.

A standard questionnaire was not used in this investigation. Generally, participants were asked to state the best action that the United States and Mexico should take in order to expand their trade relationship, to define their understanding of what a United States-Mexican FTA should entail, to state the advantages and disadvantages of an FTA, sector accords, or alternative options, and to discuss any other consideration they felt was relevant to the subject. The direction of staff questions and the answers provided in interviews generally depended on the particular expertise and experience of the individual respondent. Frequently recurring opinions and considerations identified by the Commission form the basis for the summary of views.

Organization of the report

This report consists of two major chapters. Chapter 1 summarizes the participants' views concerning the advisability of pursuing the free trade agreement option as a means toward achieving greater bilateral trade. Chapter 2 summarizes participants' views concerning the advisability of pursuing sector accords or other alternatives to an FTA as a way to broaden bilateral trade. Chapter 2 also contains individual industry digests summarizing views on the effects of freer trade on particular sectors important in the United States-Mexican trade relationship. Background information and data on the bilateral trade relationship is contained in appendix D.

Chapter 1
Summary of Views on a United States-Mexico Free Trade Agreement

Overview

The majority of participants supported the idea of an FTA as the most appropriate option for the United States and Mexico to pursue to further broaden their bilateral trade relationship. United States and Mexican officials, economists, trade analysts, and businessmen agreed, however, that the potential impact of an FTA will depend on the scope and content of the agreement and the transitional rules contained therein. They emphasized the need for quantitative assessments to help accurately evaluate the macroeconomic and microeconomic effects for both countries. Nevertheless, they generally believed that an FTA would benefit both countries by more efficiently allocating resources, lowering prices, increasing investment flows and encouraging greater product diversity.

Accordingly, a United States-Mexico FTA was viewed by a majority of participants as helping Mexico achieve long-term noninflationary growth by further enhancing Mexico's investment climate, providing better access to the U.S. market and to international capital markets. The United States, they said, would become more globally competitive under a United States-Mexican FTA with the creation of new market opportunities, new employment, and the development of new manufacturing and supply relationships. They also noted that Mexico, as the smaller partner with a gross national product (GNP) that is only about 4 percent the size of the United States' GNP, would be expected to be more significantly affected by any agreement.

Many of the participants mentioned that economic incentives are but one part of the reason that the U.S. Government should pursue an FTA with Mexico; they believed that geopolitical considerations also make a United States-Mexican FTA an attractive prospect. A number of participants said that the development of a prosperous and politically stable Mexico, aided by an FTA, is in the "enlightened self-interest" of the United States.

This chapter summarizes participants' views on the option of using a free-trade area agreement to broaden bilateral trade opportunities. The sections below on "Perceptions" contain general observations made by participants regarding market access in both countries, political stability in Mexico, United States-Mexican economic and cultural differences, the existing bilateral trade negotiating framework, and timing of possible bilateral negotiations. These perceptions were offered by many individuals in an effort to provide some context for their views and often formed the foundation for the reasons they believed an FTA would be the best option for enhancing the United States-Mexican trade relationship. The remainder of the chapter describes participants' views on what should or should not be included in a possible United States-Mexican FTA; advantages and disadvantages of such an agreement for the United States and Mexico; and implications of a United States-Mexican FTA for third countries and for the multilateral trading system.

Perceptions About Market Access

United States' perceptions about access to the Mexican Market

Most participants, especially academicians and government officials, praised the Mexican liberalization process, agreeing that access to the Mexican market has improved dramatically since 1985. These participants acknowledged that since that time, Mexico has made significant tariff reductions, harmonized its tariff structure, abolished official prices, removed most import licensing requirements, and improved protection of intellectual property. Some individuals pointed out that the privatization and deregulation of certain sectors of the Mexican economy—for example in the area of food imports—also facilitated access.[1]

According to a leading U.S. expert on trade with Mexico, access to the Mexican market as compared with other countries can now be described as generally favorable. Nevertheless, many participants indicated that there are some remaining problem areas that could be appropriately addressed through an FTA.[2]

Participants generally agreed that Mexico is now more open to U.S. investment than before, especially following the May 1989 changes in the country's foreign investment regulations. However, some participants suggest that an FTA could help encourage additional changes in Mexican law to further liberalize investment in such areas as financial services, petroleum exploration, and transportation.

Many participants said that regulatory uncertainties still make foreign investment in Mexico a risky undertaking. These participants noted that liberalization of the foreign investment regime has been implemented through executive decrees while Mexico's restrictive 1973 foreign investment law remains intact, and expressed concern

[1] Private companies are now permitted to import food directly. Before the liberalization of food imports, CONASUPO (the Mexican food monopoly) was the sole importer. See Phase 1 report for more information.

[2] These problem areas include import license requirements, domestic content quotas on certain products, discriminatory government procurement practices and other nontariff barriers.

that the successor to President Salinas could narrowly interpret the restrictive 1973 law. As one attorney and trade consultant explained:

> ...as long as the treatment of foreign investment remains based on regulations that are subject to change, the U.S. investor will feel that his long-term prospects are not assured.

Some participants, especially those representing agricultural sectors, were particularly vocal in discussing restrictions impeding access to the Mexican market. Several participants pointed out that import licensing requirements still restrict about 59 percent of the value of U.S. agriculture exports to Mexico. Such licenses continue to affect U.S. exports of grains, oilseeds, dairy products and numerous other horticultural products. According to one participant:

> In any given year, Mexico consistently ranks number one or two as a destination for U.S. sorghum exports and number five or six as a market for U.S. corn. The Council has estimated that current trade restrictions such as import licenses constrict the total [Mexican] import market by as much as 3 million metric tons.[3]

Other barriers to U.S. agriculture exports noted by participants included high tariffs for certain items (such as processed food, specialty crops), import quotas, and health regulations.[4] A U.S. cattle exporter asserted that Mexican sanitary requirements are implemented in such a way as to impede trade.[5]

United States corn and sorghum suppliers stressed that regulatory uncertainties are a major problem since these make Mexico an unreliable market. For example, one participant related how Mexico lifted and then reimposed licensing restrictions on U.S. sorghum exports according to the availability of supplies from domestic sources.[6]

The unreliability of the Mexican market for various reasons was mentioned by several nonagricultural exporters as well. A spokesman for U.S. suppliers of petroleum equipment cited several problems that are currently taking place at Petroleos Mexicanos (Pemex), the national oil company, on account of its frequent organizational changes. One such reported problem is that equipment suppliers are required to constantly adjust to new, complicated purchasing procedures that invariably follow each new organizational reform of the monopoly.[7] Others are the ongoing changes in ownership, the instability and daily devaluation of the peso, the uncertainties of rules on profit repatriation, and several other factors that discourage U.S. suppliers and investors. In concurrence with many other participants, this participant also mentioned the difficulties in maintaining patent protection and technological agreements in the Mexican legal system as an important access problem.

Access to the Mexican market was also discussed by participants in broader terms than just Mexican trade and investment barriers. For example, a few participants perceived that certain general economic measures such as Mexico's exchange rate policy, transportation regulations, and other infrastructure problems were impediments to access. Several exporters noted that the overburdened U.S. infrastructure in the border area impeded their access to the Mexican market. These participants and several individuals involved in the economic development of the border area talked about the inadequacy of facilities, such as U.S. highways in the proximity of Mexico; the approach to the port of Corpus Christi, Texas; and the limited railroad capacity on lines crossing into Mexico. Several witnesses at the Commission's regional hearings testified that the inadequacies of existing customs facilities result in congestion and considerable delays on the border. Participants suggested that access into Mexico could be improved by upgrading both countries' customs' facilities, notably their computer systems and coordinating customs' computer facilities with those of the railroads.

Most participants perceived the relatively underdeveloped state of Mexican infrastructure—highways, railroads[8], bridges, utilities, ports, storage facilities—the inadequate trucking services, and a poor education system as an even greater access problem for U.S. interests than the infrastructure inadequacies in the U.S. border area. Many stated that the problems associated with the poor Mexican infrastructure should be made a high priority issue in the FTA negotiations, because an FTA will generate additional trade that must be accommodated.

[3] Darwin E. Stolte, President of the U.S. Feed Grains Council, copy of his letter of Aug. 2, 1990 to Ambassador Carla Hills, U.S. Trade Representative, as submitted for the record.

[4] For example, at the Commission's Las Cruces hearing, Edward Avalos of the New Mexico Department of Agriculture, cited apples, Christmas trees, cattle and sheep, as examples of U.S. export items whose access to the Mexican market is impeded by various tariff and nontariff barriers.

[5] At the Commission's Las Cruces hearing, Robert A. Baesler of Diamond A Cattle Company described how Mexican health regulations increased the cost of shipping breeding cattle to Mexico, and caused delays in shipments.

[6] Testimony of Jack Eberspacher, executive director of the National Sorghum Producers Association, McAllen hearing, tr., p. 171.

[7] Testimony of Gary D. Nicholson, President of Petroleum Equipment Suppliers Association, McAllen hearing, tr., p. 65.

[8] See, for example, testimony at the McAllen Texas hearing by Juan Manuel Correa, on behalf of the Union Pacific Railroad Company. He recommended that U.S. private investment should be encouraged into railroad modernization and additional capacity, and that Mexico should make legislative changes to open the railroads to private capital.

Mexican perceptions about access to the U.S. market

Although the majority of U.S. academics and Mexican participants noted that U.S. quotas for certain products and selected high tariffs were "the most glaring" trade barriers for Mexican products entering the United States, a number of other impediments were cited. These included discriminatory border procedures, inadequate border infrastructure, seasonal tariffs and marketing orders for certain agricultural products, sanitary regulations which were unclear or were applied arbitrarily, and U.S. union work rules and content requirements for certain auto products. One Mexican industry representative suggested that "there has been a past pattern of the United States increasing trade barriers whenever Mexico becomes competitive in a particular industry."

The most egregious barrier cited by participants was the U.S. Customs procedures at the border. Mexican exporters, U.S. manufacturers of maquila products reentering the United States, and several U.S. Government officials in Mexico were unanimous in decrying procedural impediments to trade, including ambiguous, "inefficient and capricious" import regulations, unskilled customs officials and paperwork requirements.

Several Mexican businessmen recounted reported delays of 1 year to 18 months in receiving written tariff classification from U.S. Customs headquarters in New York City for certain products, a procedure reportedly made necessary by the refusal of border inspectors to commit in writing verbal classifications made upon entry. Several U.S. participants with businesses located in Mexico noted that zealous drug interdiction efforts often needlessly damage packaging and goods. A witness appearing at one of the Commission's regional hearings noted:

> U.S. Customs evaluation procedures differ as you go from district to district or port to port. If you're looking at a maquila product on the border [and] you're in Laredo, Texas, U.S. Customs will value that item primarily on the basis of transaction value. If you're in El Paso, Texas, they're likely to value that product on the basis of constructed cost. Same product, two different valuations, and we think that this is a hinderance to trade.[9]

Several U.S. Government officials suggested that such problems may be due, in part, to the poor training of Customs agents along the border. They complained that U.S. Customs stations are "staffed by GS-3s and GS-4s who seldom stay long and some of whom have a hostile attitude toward all Mexicans entering the United States—whether businessmen, government officials or day shoppers."

Echoing the view that the availability of infrastructure "will ultimately be the litmus test"[10] determining the extent of U.S. investment in Mexico, a number of participants counseled that U.S. facilities are in need of major renovation if trade between the countries is to expand. Shipment delays of several days were noted as common in some cases, with agricultural shipments often spoiling when this occurs.

Despite recent proposals for infrastructure improvements,[11] one hearing participant conjectured:

> ...there seems to be a lack of appreciation on the part of the Federal agencies involved on the need not only to construct new facilities, but to revisit established border stations to determine better ways to improve the physical access of passenger and commercial vehicles.[12]

For many Mexican agricultural producers, U.S. Department of Agriculture and U.S. Federal Drug Administration sanitary regulations are seen as "nontransparent, complex, [and] unevenly applied," thus constituting a major barrier to access to the U.S. market. Although by law some imports must meet U.S. grade and quality standards as regulated by marketing orders, U.S. Government officials and Mexican representatives acknowledged that "problems arise when commodities come under new marketing orders or existing requirements are changed." One type of problem they mentioned was the aquisition of information on the reasons for the rejection of certain agricultural products. Specifically, they cited a Mexican exporter of a product not made in the United States who was forced to file a Freedom of Information Act request to obtain specific information on the reasons for rejection of a shipment of his product.

Several representatives of Mexican agriculture urged that while "sanitary conditions are not negotiable and Mexico realizes they must be met," animal and plant health considerations "should be based on scientific fact and not used as a trade barrier." A further suggestion was made that both countries should establish standards and regulations on an international basis.

Other Mexican agricultural products exported to the United States, (e.g., cotton, dairy products, sugar and sugar-containing products, and peanuts) are subject to quotas. Outside of the

[9] Tucson Hearing, tr., p. 86.

[10] Tucson hearing, tr., p. 50.

[11] One improvement plan calls for renovation and expansion of 18 border inspection stations and replacement of an additional 10 antiquated stations. In addition, U.S. Customs are reevaluating the "truck processing strategy," in some cases instituting "quick release truck booths." Las Cruces hearing, tr., p. 50.

[12] Tucson hearing, tr., p. 75.

agricultural sector, certain steel mill products and textiles are also subject to quota regulations. From the Mexican perspective, such policies effectively block many commodities for which Mexico has a comparative advantage vis-a-vis the United States. This same argument was repeated in reference to such Mexican products currently subject to high U.S. tariffs, e.g., corn brooms[13] and cut glassware. Quotas and certain high tariffs were perceived by many Mexican participants as evidence that the United States' market is more closed than that of Mexico; one participant characterized the United States as "extremely protectionist" and several participants estimated effective U.S. tariffs as between 12 and 20 percent.

Spokesmen for the Mexican auto industry noted that work and content rules demanded by U.S. labor groups effectively limit the amount of production that can be shifted to Mexican plants. These requirements were characterized as "a limit on what we can do," given the competitive nature of Mexican production facilities.

Perceptions About Political Stability in Mexico

Several U.S. and Mexican participants said that although Mexico has undergone economic structural adjustments since joining the GATT in 1986, its political system has remained essentially the same and has been controlled by one political party for the past 60 years. Participants on both sides of the border stated that Mexico's political system needs to become more democratic.

A few U.S. and Mexican participants stated that the United States should condition its entry into an FTA with Mexico on a promise by the Salinas Administration to quicken the pace of political reform in that country. Proponents holding this view believed that free and fair elections and reform of the long dominant political party, the Partido Revolucionario Institucional (PRI), will not take place unless the United States applies pressure through FTA negotiations. These participants said "the United States should not be entering into an FTA with a country which does not have a democracy." They further reasoned that Mexico's economic reforms will not be secure without much needed political reforms.

One U.S. political analyst said that the U.S. administration has focused too much attention on Mexico's economic reforms and not enough on its political reform. He asserted that the U.S. administration needs to push "the cause of democracy," similar to what is being encouraged in Eastern Europe. A noted U.S. academician voiced strong support for a United States-Mexican FTA but only if Mexico "can liberalize its political system and have open and fair elections." He did not believe the United States should enter into an FTA with an "authoritarian regime."

Many of the participants who expressed concern about the need for political reform in Mexico also stated that, without U.S. pressure in an FTA, the PRI will be reluctant to give up its control of the economy through its bureaucratic control of state-owned industries, the farming sector, customs, and the regulation of private and foreign business. Several representatives of U.S. labor groups stated that Mexican workers will "continue to be exploited by U.S. and Mexican companies until free elections provide them with the right to pass legislation to protect their rights."

The majority of U.S. and Mexican participants, however, were adamantly opposed to any conditioning of any FTA on such a "free election" promise. Many noted that the United States should not meddle in the internal affairs of another country, "just as we would not want another country to meddle in our affairs." One U.S. analyst questioned the fairness of the request by saying, "the linkage between political and economic reform does not exist in other FTAs (i.e. Canada) so why should it be included in the Mexico FTA?" He said that it would be counterproductive to any political reforms being contemplated in Mexico and concluded that the FTA itself would be "the best medicine" for encouraging political reform. As one U.S. trade negotiator stated:

> Mexico has the form of democracy but not the substance. . . . Does the United States care? Yes, Mexico might not be a functioning democracy in the Western tradition, but it is not a brutal military country either. . . . We want to support Mexico because it is in our long term economic and political interest to do so. Political freedom and economic freedom go hand in hand. Rising expectations [in Mexico] will create demands for change by creating a system that fosters change.

Another U.S. participant stated:

> Mexico is extremely sensitive to the United States telling them what to do. Conditioning an FTA on political reform would be counterproductive since it is in the United States's best interests economically, politically, and strategically to enter into an FTA.

Nevertheless, many Mexican and U.S. participants expressed reservations and concerns over reports concerning Mexican electoral fraud and

[13] Broomcorn brooms are a politically sensitive issue in the United States because disabled workers are involved in the U.S. production of these products. Brooms made of broomcorn are subject to U.S. tariffs and quotas that limit imports and provide for tariffs as high as 32 percent to protect blind and handicapped workers in the United States. Mexican officials have rejected this argument, alleging instead that the restrictions are to protect certain U.S. companies.

stated their desire that free and fair elections should be held. Other U.S. participants suggested that it would be much more difficult for the U.S. Congress to approve an FTA if there is ongoing evidence of electoral fraud.

Reversibility of reforms.—A number of U.S. participants expressed lingering concerns about the sustainability and furtherance of Mexico's economic reforms. Since the restrictive 1973 investment law remains intact, participants believed that a new Mexican president could reverse the nature of the implementing regulations. In particular, they noted that a significant break from the current direction of liberalization could worsen the business climate in Mexico, especially for foreign investors. It is for this reason, U.S. participants suggested, that potential investors continue to lack confidence in the stability and continuity of Mexico's trade and investment reforms.

United States' participants from the private sector expressed varying degrees of concern about the possible reversibility of Mexico's economic reforms. Some believed that the liberalization measures will continue, even if the opposition party candidate is elected. Others said that "concern about the longevity of Salinas' reforms is legitimate; governments can change their minds." Still others found it difficult to imagine that an opposition candidate could win a presidential election in Mexico.

Some U.S. and Mexican participants speculated that if the leading opposition party in Mexico, the Partido de la Revolucion Democratica (PRD), were to win the 1994 presidential election, the thrust of many of the reforms instituted under the Salinas administration could be reversed. A few Mexican participants who supported the PRD's position, said that the PRD does not oppose a United States-Mexican FTA, but has cautioned that negotiations must proceed slowly. They also said some of the current economic reforms were needed and would be maintained if an opposition candidate assumed the presidency, however, those reforms which "have not been beneficial to Mexico" would be reversed.

Within Mexico, government and business participants sympathized with the U.S. concerns regarding the permanence of the economic reforms, and downplayed the apprehension of reversibility by stating that any government, not just Mexico, can change its policies, especially in a democracy. Said one former Mexican Government official "[The United States] is asking for democracy [in Mexico] and democracy has its risks." Many Mexican participants, particularly those in the private sector, did not believe an opposition candidate would reverse any of Salinas' reforms. They insisted that "the Mexican people have confidence and faith in their government, and Salinas' [likely] successors believe in free trade, so the changes are irreversible." Many also noted that governments do not usually "jump from one thing to another quickly."

Stability and continuity of economic reforms dependent upon an FTA.—Both Mexican and United States private sector participants said that the stability and continuity of Mexico's economic reforms may depend, in part, upon the success of the FTA negotiations to produce an agreement and that an FTA, through "codification," would ensure the permanancy of the reforms. As one Mexican businessman remarked:

> According to the Constitution of the United States of Mexico, an international treaty, executed by the President of Mexico, ratified by the Mexican Senate, and not contrary to the Mexican Constitution, becomes a supreme law of Mexico, having the same force and effect as all Mexican federal laws. Therefore, a Free Trade Agreement would adequately address the concerns of those who fear that the recent changes implemented by the Government of Mexico could be reversed by other administrative actions.[14]

United States Government officials and political analysts also believed that an FTA "constitutes an international commitment which could lock in the domestic reforms instituted over the past five years."

Several businesspeople asserted that "if Salinas' reforms do bear fruit and the economy grows in the next few years, the reforms should remain. However, there is a possibility of reversal if the economy doesn't grow." Several U.S. and Mexican officials cautioned that if the U.S. Congress does not approve the FTA, this rejection could "spark a reversal of the reforms." Said one Mexican participant, "if the FTA does not go through, Salinas and the PRI are finished." These participants believed that if the U.S. Congress were to reject an FTA, it would be a "colossal mistake," a "political misstep," and "a security disaster for the United States."

Perceptions About U.S.-Mexican Diversity

A number of participants discussed various differences between the United States and Mexico that could possibly complicate any FTA negotiations. These differences included the asymmetrical levels of economic development, diverse traditions and languages, and different levels of experience in conducting FTA negotiations.

[14] Written submission of Lic. Raul Rangel Hinojosa, Vitro, Sociedad Anonima of Monterrey, Nuevo Leon, Mexico, to the Commission.

Disparity in economic development.—The majority of participants who expressed views on this subject believed that differences in the level of economic development between the United States and Mexico could make FTA negotiations difficult, but said that this was not an insurmountable problem. Two general positions were articulated. One view emphasized the inherent disparities between developed and developing economies. According to participants holding this view, an FTA between the United States and a country that is significantly less economically advanced could not fully achieve free trade among the partners for both economic and political reasons. Many noted that the vast wage differential would further complicate the negotiations, with a few participants even suggesting that a United States-Mexican FTA would be "inappropriate and inadvisable."

This disparity in income was cited as "a strong inducement for illegal migration to the United States while the political climate and economic uncertainty in Mexico continue to limit the southward investment flow that could create new job opportunities."[15] Another worry was that the present asymmetry between the economies would lock each country into its current comparative advantage niches and never really allow Mexico to develop.

The other view, held by the majority of participants, was that although the Mexican and U.S. economies have disparate levels of development, they are also complementary and thus invite closer economic ties for the mutual benefit of both countries. Some participants even suggested that FTA negotiations with Mexico could be easier than those with Canada. In general, participants believed that, if both sides are sensitive to the concerns of those industries and labor organizations that are likely to be most affected by the trade concessions, an equitable agreement can be formed.

Cultural differences.—The majority of participants said that, because of the close proximity and cultural integration that exist between the United States and Mexico, cultural differences should not hinder development of a United States-Mexican FTA. Many people regarded the impact of different languages, traditions, history, and customs of the neighbors as negligible on FTA negotiations. A few participants noted that during the United States-Canadian FTA talks, Canada, being so similar to the United States, was perhaps rightly concerned about U.S. cultural domination on its society, but since Mexico's "culture is so strong and distinctive," its fear of U.S. domination should be minimal. As one U.S. Government official asserted, "Mexico is much more self-confident culturally than Canada."

Disparity in negotiating experience.—There were mixed views on the resources both countries have available to conduct negotiations. A few participants worried that Mexican trade officials are inexperienced in negotiating FTAs, whereas the United States has concluded agreements with Canada and Israel. These participants suggested that the disparity could result in "missed communications" and "crossed signals," making FTA negotiations very difficult. Other participants mentioned that the Mexican Government recently created a special unit for the sole purpose of working on United States-Mexican FTA negotiations. They said that, while the Mexican negotiators may need "a lot of learning" relative to the U.S. negotiators, they will be "fast learners." Another perception was related by a few Mexican businessmen who believed that the United States has many more resources to devote to the microeconomic analysis of the probable effects of an FTA and, therefore, will be able to identify areas of concern and benefit more readily than the Mexicans.

Perceptions About the Current Negotiating Approach

In 1987, the United States and Mexico signed a bilateral understanding which established principles for their trade and investment relations and established a consultation mechanism for the resolution of trade disputes.[16] In 1989, the two Governments signed an understanding committing them to undertake Trade and Investment Facilitation Talks (TIFTs) for possible negotiations in specific product areas or cross-sectoral issues.[17] The majority of those participants who were knowledgeable about these arrangements generally agreed that they laid the groundwork for a United States-Mexican FTA. Several participants said that the 1987 Framework Understanding presented a good forum for negotiations, promoted more interest in trade, changed some stereotypical attitudes on both sides of the border, and made some progress in improving trade relations. Moreover, they agreed that consultations and negotiations conducted under the auspices of the arrangements allowed the United States and Mexican trade officials to establish a dialogue, develop mechanisms for resolving disputes, and obtain information on the other

[15] Clark W. Reynolds, "The economic outlook for the United States in the 1990s with implications for Mexico-U.S. relations," presented at conference on U.S./Mexico Industrial Integration, Woodlands, Texas, Dec. 7-10, 1989.

[16] Currently, 10 working groups provide a forum for discussing issues in the following areas: agriculture, industry (electronics, automobiles, steel, textiles), services (transportation, insurance), investment and intellectual property rights, and tariffs.

[17] The two areas the Governments have agreed to negotiate on are petrochemicals, and standards, regulations, and certification. Details on the 1987 Framework of Understanding and the 1989 TIFTs are in ch. 2, Phase I report.

country's people and institutions involved in trade. Most participants believed that these benefits helped move the United States and Mexico towards freer trade. A noted Mexican critic of the FTA felt that the TIFTs, by moving ahead in such problem areas as taxes, intellectual property, and investment, were sufficient and should be allowed to continue "to see where the United States and Mexico relations are going." Only then, he said, should we move forward with an FTA. A few participants, however, were skeptical of the arrangements, describing them as "more cosmetic than substantive" or "agreements to agree." Many businesspeople, from the United States and Mexico, were not familiar enough with the arrangements to comment on their effectiveness.

Perceptions About Timing of an FTA

Participants' comments concerning the timing of a potential FTA generally revolved around three major themes: 1) the speed of the negotiations, 2) the relationship to Uruguay Round talks, and 3) phase-in requirements for concessions.

Speed of the negotiations.—The majority of Mexican participants said that United States-Mexican FTA negotiations should begin as soon as possible and conclude quickly. Many Mexican participants were unfamiliar with, and skeptical of, the "fast track" FTA negotiating procedures and legal requirements in the United States. One PRI spokesperson, in declaring that there should be a special effort on both sides to complete the negotiations by the end of 1990, asked, "If President Bush has the authority to push the button that could destroy the world, why doesn't he have the authority to conclude an FTA quickly if he wants to?"

A number of United States and Mexican participants believed that United States-Mexican negotiations could conclude in considerably less time than it took to conclude the Canadian agreement. These participants cited prior negotiations under the 1987 Framework Understanding and the 1989 TIFTs talks as having "paved the way" for an FTA, by already addressing and eliminating some trade barriers. They pointed out that a United States-Mexican FTA will also have the advantage of building on whatever results come from the Uruguay Round negotiations. A former USTR negotiator opined that the FTA negotiations "could be formally initiated and completed in six months." Assuming a mid-summer of 1991 beginning, he believed that negotiations could be completed by the beginning of 1992, with first results implemented as early as January 1, 1993.

The majority of Mexican participants stressed the urgency for starting and completing the bargaining sessions quickly, as the "window of opportunity" would not be open indefinitely. They pointed out that Mexico needs to move rapidly on an agreement for a variety of economic reasons, including the need to increase investment, improve standards of living, and encourage the return of flight capital. Additionally, a number of participants also asserted that for political reasons, the Salinas Administration will want to conclude negotiations quickly. Others said that the immense strategic benefit to the United States of a stronger Mexico was another incentive for completing the trade discussions "as soon as possible." A few participants said it is preferable for both countries to conclude an agreement now, and resolve any problems later.

Another view was presented by other participants who noted that the United States-Canadian FTA negotiations took several years to complete even though the two neighbors have similar economies. They stated that Mexico and the United States should study carefully the possible impact of an FTA before embarking on negotiations and then proceed slowly to phase in the concessions. Citing the asymmetry of economies between the United States and Mexico, many U.S. participants expressed sentiments similar to the assessment by one participant that "it will take more than a magic wand to initiate and conclude a comprehensive trade agreement with Mexico."[18] Many believed, for example, that the disparity in wage levels will make the negotiations much more difficult. Others anticipated that the U.S. Congress needs to be "sold on the idea" of an FTA with Mexico. Many U.S. businessmen and a few Mexican businessmen urged that the talks not be "rushed" since companies will need to rationalize their manufacturing processes. Several businesspeople supported a gradual implementation of an FTA, "as opposed to an immediate, shocking, and probably unnecessarily disruptive implementation for the agreement."[19]

A few Mexican and United States businessmen and academicians recommended that negotiations should not begin for at least 4 or 5 years. They were concerned about Mexico's external debt situation and the pressures that would be placed on many of the Mexican companies unable to compete with U.S. firms.

A number of participants said that upcoming national elections in both countries could also influence the timing of an FTA. Several experts recommended that the negotiations be completed before the 1992 presidential election in the United States. A common sentiment expressed was that "[negotiators] would hate for the FTA to drag into the 1992 elections which would make a mess of it." A few participants intimated that, if

[18] Statement of John E. Avery, Company Group Chairman, Johnson & Johnson, to the Subcommittee on Trade, House Committee on Ways and Means, June 14, 1990.

[19] Statement of Gerard J. Van Heuven, Executive Vice-President U.S.-Mexico Chamber of Commerce to the Subcommittee on Trade, House Committee on Ways and Means, June 28, 1990.

FTA negotiations are not completed by 1992, U.S. negotiators would be reluctant to conclude it until after the Mexican presidential election in 1994. They reasoned that the uncertainty of who will succeed President Salinas could stonewall any further negotiations for free trade between the two countries.

Relationship with Uruguay Round.—A general consensus emerged, particularly among U.S. participants, that formal negotiations should not begin prior to the conclusion of the Uruguay Round. However, a few participants contended that because the bilateral talks would not conflict with the multilateral talks, the two could take place simultaneously. Some participants who shared this view noted that the Uruguay Round could possibly be extended beyond December 1990 and that FTA negotiations should not be held up because of that fact.[20]

Phase-in period for FTA concessions.—Many participants stated that a tariff phase-in period for certain industries and products likely to be adversely affected in both countries will be necessary in order to provide a "soft landing."[21] In particular, many experts suggested that a ten-year phase-in period such as that provided by the United States-Canadian FTA would be an appropriate adjustment period to allow both Mexican and U.S. companies to adjust to increased competition. However, a number of U.S. interests opposed to an FTA (e.g., labor, certain agriculture sectors, and certain industries) asserted that an FTA should include, at a minimum, a lengthy phase-in period (20 to 25 years) to permit such adjustments as relocation and retraining.[22]

Some Mexican and U.S. business representatives proposed that Mexico receive a "jump start" reduction in certain U.S. tariff and non-tariff barriers, even before the completion of negotiations for an FTA. They reasoned the Mexican economy needs the immediate benefits in preparation for the dislocation which an FTA would otherwise immediately create. Further, such a move could provide an important stimulus to investment in Mexico.[23] Proponents of this view thought the special treatment would also be justified by Mexico's large unilateral tariff reduction since joining the GATT in 1986.

Most U.S. participants did not agree with the "jump start" idea. They noted that the United States-Canadian FTA has symmetrical tariff reductions and believed that an agreement with Mexico should be similarly constructed. They also stated that current U.S. tariffs are already low for most products and that a further reduction, even on a preferential basis, would not make much difference. In addition, participants holding this view believed that the U.S. Congress would not deem it politically feasible to permit such a "jump start" for Mexico.

Definition of a United States-Mexico FTA

Participants expressed a number of different views regarding the content of a United States-Mexican FTA. There was a general consensus, however, that any agreement should be GATT-consistent, eliminating "substantially all" tariff and nontariff barriers to trade. Most participants agreed that the agreement should be comprehensive and address not only general market access issues, but also investment regulation, protection of intellectual property, certain service sectors, product standards and certification, agriculture, infrastructure, environmental protection, energy, rules of origin, safeguard or emergency actions, and dispute settlement procedures.[24] Or, as a number of participants said, "everything should be on the table."

[20] Statement of Rep. Jim Kolbe before Subcommittee on Trade, House Committee on Ways and Means, June 14, 1990.

[21] The General Agreement does not require the immediate removal of all duties and other restrictive regulations as soon as a free trade agreement is implemented. In fact, GATT art. XXIV:5 permits an "interim agreement" consisting of a "plan and schedule for the formation of such a customs union or such a free trade area with a reasonable length of time." Trade experts indicate that this provision would allow a phasing in of the reduction and removal of barriers between parties. Moreover, the elimination of tariffs and other trade impediments need not occur at the same pace for all products or for both parties. A gradual approach, reducing tariffs over a period of years, would help deal with the political and economic problems that will inevitably arise. "Interim agreements" with phasing-in features are found in nearly all customs unions and free trade areas.

[22] Certain large U.S. manufacturers who have had facilities in Mexico for decades argue that there should be transitional tariff and rules of origin protection for their existing investment. They claimed that because they were in Mexico during the "tough" years of crisis, they deserve some safeguard protection from other U.S. and foreign manufacturers to get ready for an open market.

[23] Written statement by Juan Gallardo, chairman of the Mexican Section of the U.S.-Mexico business committee to the the Subcommittee on trade, House Committee on Ways and Means, June 14, 1990.

[24] Article XXIV:8(b) of the GATT, permits parties to enter into FTAs under certain circumstances. It states:

> A free-trade area shall be understood to mean a group of two or more customs territories in which the duties and other restrictive regulations of commerce (except where necessary, those permitted under Articles XI, XII, XIII, XIV, XV AND XX) are eliminated on substantially all the trade between the constituent territories in products originating in such territories.

FTAs, like the GATT, once may have been interpreted as addressing mainly tariffs or other border measures between countries, but even the GATT, by including "other restrictive regulations" in its description of FTAs, leaves the door open to broader interpretations. Today, both multilateral agreements (e.g., the Tokyo Round Codes) and bilateral agreements, including the United States' FTAs with Israel and Canada, address a wide range of nontariff measures that restrict trade and can involve countries' domestic regulatory affairs. Existing bilateral FTAs extend to services, investment, and intellectual property rights protection, subjects that Uruguay Round negotiators are also seeking to bring under GATT coverage.

In anticipation of an eventual trilateral agreement that would include the United States, Mexico, and Canada, a number of participants said that it would be advantageous to model a United States-Mexican agreement after the United States-Canada FTA. However, a few participants warned that Mexico's economic situation, internal policies, and legislative framework are sufficiently different from those of Canada as to warrant development of a new, unique agreement.

Most participants suggested that negotiations of an FTA could be made more difficult by the inclusion of certain contentious or nontrade issues, including labor mobility, drug interdiction, human rights issues, environmental protection, and political reform in Mexico. A majority of participants expressed the opinion that nontrade issues have no place in trade negotiations; others thought that FTA negotiations would provide an ideal opportunity to address issues outside of the trade arena that are important to both countries. The nontrade issues cited most often by participants for inclusion in a United States-Mexican FTA are described below.

Mobility of Labor.—One of the most contentious non-trade issues suggested by participants for inclusion in a United States-Mexican FTA is the free movement of workers across borders. A majority of Mexican participants and a few U.S. participants expressed the view that, because massive illegal immigration from Mexico to the United States has been a major source of bilateral friction, it would be "hypocritical" not to address labor mobility issues in an FTA. One U.S. businessman said, "like it or not, free movement of labor from Mexico to the United States is a reality." Wrote one Mexican academician:

> [Labor mobility] is the single most attractive benefit for Mexico of any integration agreement, and it is the one item that would make it truly palatable to Mexican public opinion. To exclude the issue from negotiations at the outset would simply confirm the suspicion of one-sidedness the entire affair has been generating.[25]

A number of participants argued that labor is a main export of Mexico; Mexican workers in the United States reportedly send home up to $2.5 billion annually. Other Mexican participants disagreed, noting that President Salinas has emphasized that "in Mexico we seek to export goods, not labor." In addition, some Mexican participants were wary of an initial "brain drain" to the United States before positive effects (e.g., improved standards of living) of an FTA could take hold in Mexico.

[25] Jorge G. Castaneda, "The Mexican free-trade express," *International Economy*, June/July 1990, p. 31.

The majority of U.S. participants stated emphatically that the free movement of labor should not be part of an FTA. Most termed the issue "explosive," as typified by one high-level U.S. Government official who said that "nothing could derail the negotiations faster than the Mexicans insisting that their workers be permitted free access to work in the United States." Others commented that labor mobility might be appropriate if the two countries were forming a common market, but not an FTA.

One U.S. economist wrote that "given the large disparity in national wage levels and labor productivity, it will be difficult for the United States to include this issue in an FTA—even though it is a high priority for Mexico."[26] A U.S. businessman from the border region stated that free movement of Mexican labor into the United States "would be a disaster which would eliminate blue-collar employment of U.S. citizens in border towns." One U.S. Government official said that labor mobility is really an immigration issue and should be dealt with in that context. He and several other participants suggested that immigration issues be addressed on a parallel track in the future.[27]

However, many participants pointed out that the free movement of Mexican labor into the United States is a *de facto* reality. They claimed that Mexican immigrants engage in many of the low-wage, unskilled jobs in the United States which U.S. citizens refuse to perform. They also insisted that U.S. border patrols and immigration officials are unable to stem the flow of illegal Mexican workers through the porous 2000 mile common border. In addition, these participants suggested that given the bilateral demographic disparity—i.e., the fact that the United States' population is aging rapidly while more than half of Mexico's population is below the age of 20, the United States will need to rely on Mexican labor in the near future and should include some sort of labor mobility provisions in an FTA.

Several participants suggested that labor mobility could be addressed in an FTA by permitting limited work in particular "service" areas, such as cleaning and sanitation, or on a seasonal basis in

[26] Jeffrey Schott, "The Mexican free-trade illusion," *The International Economy*, June/ 1990, p. 33.

[27] A former U.S. trade negotiator noted the lack of a historical basis for a free movement of labor in trade negotiations. He said:

> Few trade agreements have ever contained provisions on free movement of labor. The current GATT negotiations are a first major effort to address the issue in a trade forum, but little progress is expected in this GATT round. The European Community, which is an institutional arrangement which consciously calls for more integration than envisaged in an FTA, is still working on the issue of the free internal movement of labor. The U.S.-Canadian FTA merely contains minor provisions to further facilitate business travel. It is unreasonable to expect the U.S.-Mexico FTA to do more.

agriculture. One U.S. bank representative said such a system could be referred to as a "controlled guest labor program." A Mexican journalist stated that:

> [Mexican workers] should be allowed temporary entry—perhaps 3-6 months during the growing season—into the United States so they have no incentive to stay. Even if this were not part of the agreement, something should be done on the issue of labor. Perhaps it could be added later.

United States agricultural interests asserted that such limited programs would provide the United States with the benefit of the less expensive labor needed to lower its domestic production costs. According to one U.S. farmer:

> Will U.S. farmers have access to Mexican labor for labor-intensive crops produced in the United States? If not, we will continue to lose production and jobs to Mexico. We have seen this happen in the vegetable production during the last several years.[28]

Several U.S. industry representatives stated that if there is any concession from the United States on the issue of Mexican labor mobility, Mexico will have to reciprocate and permit U.S. workers, particularly skilled professional workers, to work freely in Mexico. A few U.S. immigration experts suggested that the FTA could include provisions for professional and business movement in much the same manner as the United States-Canadian FTA.[29]

U.S. Participation in Extraction of Mexican Petroleum.—Several U.S. participants proposed that an FTA should include the right of U.S. investors to invest in the state-owned oil monopoly, Pemex or to enter into joint ventures with Pemex to extract oil. The Mexican Constitution prohibits foreign interests from engaging in the extraction of oil or ownership of oil rights in Mexico. Certain U.S. participants suggested, however, that, because of declining U.S. oil reserves, rising petroleum production costs, and increasing U.S. dependence on foreign oil imports, the United States should press for some supply access guarantee to Mexican oil. Several representatives of U.S. petroleum interests and others claimed that Pemex does not have sufficient capital to explore and exploit Mexico's oil reserves.[30] They insisted that U.S. capital combined with Mexican resources would lead to benefits for both countries.

However, numerous participants emphasized that the issue of oil in Mexico is a "sacred cow," which involves a number of highly sensitive sovereignty issues that have simmered since the Mexican revolution of 1914. Many participants said that the United States must be sensitive to the political backlash likely to be created if it presses to include the issue of oil in FTA negotiations. The better approach, they asserted, is for Mexico to decide when and if such privatization of Pemex or joint ventures and investments by foreign interests are warranted. As one Mexican trade expert said:

> Every sector should be on the negotiating table, including energy. But not Pemex. There is a difference, and the issue is energy, not Pemex. Mexico may be obliged to sell the United States energy as are the Canadians under their agreement, but the FTA has nothing to do with whether Pemex is a public entity or not.

Infrastructure Development.—Many participants noted that the infrastructure linking the United States and Mexican border areas (ports, bridges, roads, and customs facilities) is currently inadequate and would not be capable of handling the increased trade that would result from an FTA. The effectiveness of the agreement would therefore be limited. The majority of United States and Mexican participants from the border region agreed that an FTA should include a pledge by both countries to improve the infrastructure along the border.

Several participants noted that infrastructure repair and development in Mexico has been neglected for the last decade because of the country's budget constraints and has thus deteriorated badly. A few participants mentioned that the private sector is now being permitted to invest in infrastructure projects in Mexico, but some were skeptical that such private initiatives would occur. The majority of participants who commented on the infrastructure along the border suggested that an FTA address the issue to ensure that both countries make the necessary commitment in funds.

Drug Interdiction.—During hearings before the Trade Subcommittee of the House Committee

[28] Testimony of Carl L. King, Executive Director, Texas Corn Producers Board, McAllen hearing, tr., p. 166.

[29] The U.S.-Canadian FTA covers four groups of nonimmigrants: (1) Business visitors engaging in a variety of business activities; (2) Traders and Investors may obtain an E-1/E-2 visa status which currently is not available for Mexican nationals; (3) Intracompany transferees who have worked for the U.S. company's foreign subsidiary for one year transferred to work in executive, management or other specialized knowledge activity; and (4) Professionals in a series of occupations, however, excluding some professional categories such as geologist, food scientists, physical therapists. Written submission of Nancy Fuller-Jacobs, Attorney, to the Commission, Jul. 17, 1990.

[30] Mexico is believed to have the resource potential to increase oil production from the current 2.5 million barrels per day to 3 million barrels per day, provided the necessary additional funds can be made available. Without additional funds, U.S. participants suggested that Mexico's role in the international oil market will diminish as declining production and rising domestic consumption combine to reduce oil exports.

on Ways and Means on June 14, 1990, several U.S. Congressmen suggested to U.S. Trade Representative Carla Hills that a commitment to drug interdiction efforts be made part of any United States-Mexican FTA negotiations. Almost all of the participants questioned about this suggestion, while acknowledging the seriousness of the illicit drug issue, were vehemently opposed to its inclusion in an FTA.

Many Mexican and United States participants commented that the problem is predominantly one of U.S. demand and should be tackled from that direction. Other participants stated that it is inappropriate to link efforts "to reduce the formal barriers to trade in goods and services and investment with the enforcement problem related to illegal goods." They asserted that the issue of illegal drugs is not appropriate for trade negotiations. One trade expert asked rhetorically: "What will [USTR] Carla Hills offer the Mexicans if they prevent drugs from coming into the U.S.? Lower tariffs for lower drugs?" A number of participants suggested that a coordinated, bilateral effort to address the drug problem could be carried out on a parallel track separate from FTA negotiations.

Environmental Protection.—A number of participants commented that an FTA should include provisions requiring Mexico to adopt stricter environmental regulations and provide effective enforcement regarding water, air, toxic wastes, and sewage control, particularly near the border areas. The maquiladora industry was often cited as a major cause of environmental concern. One U.S. environmental group commented that even without an FTA, the expanding maquiladora industry has damaged the environment:

> Polluting industries are flocking to border areas where they take advantage of cheap labor and weak environmental enforcement. Under a free trade agreement, these problems may worsen.[31]

Several U.S. Government officials and environmental protection advocates stated that while there have been recent improvements in the environment, significant problems remain, including air pollution from Juarez, Mexico spilling over to El Paso, Texas, and water pollution caused by untreated sewage from Mexico in many locations along the border:

> An example of this is the New River, which flows from Mexicali, Mexico to Calexico, California. What was once a pure river full of life, has deteriorated into an open sewer carrying the wastes of millions of people. The New River has become a health hazard to the border communities as it is full of water-borne diseases such as typhoid, hepatitis, and diphtheria.[32]

Further,

> The problems the maquiladora industries pose are detrimental to the environment and the local communities surrounding them. They illustrate the environmental costs of trade based on years of regulatory laxity and point to a situation which might be aggravated by a free trade agreement.... Any free trade agreement between the two countries must control and regulate the pollution from these industries along the U.S. and Mexican border. Indeed, resolution of these environmental problems should be a prerequisite for further discussions of a free trade agreement.[33]

Moreover, U.S. labor and environmental groups claim that any FTA should require Mexico to adopt the same stringent environmental laws and enforcement that companies operating in the United States must face. They stated that U.S. companies move to Mexico to avoid the environmental "costs" of doing business in the United States. They asserted that requiring Mexico to enact and enforce environmental laws is one way to create a "level playing field" and discourage U.S. companies from uprooting their operations from the United States to take advantage of lower cost Mexican labor.

Participants representing U.S. industry sources with locations in Mexico insisted that Mexican environmental laws are "essentially what our EPA rules are, although they're administered a bit differently."[34] U.S. maquiladora operators stated that Mexican authorities are vigilant in requiring them to transport back to the United States any toxic wastes produced in maquiladora operations.[35] Further, they claim that their Mexican operations are conducted pursuant to the same standards as those followed by their U.S. operations. These industry participants and the majority of Mexican participants oppose inclusion of environmental standards in an FTA, noting that Mexico would probably lose investment if the environmental regulation and corresponding costs

[31] Written submission by Andrea Durbin, Conservation Representative, Friends of the Earth, to the Commission.

[32] Ibid.

[33] Ibid.

[34] Statement of Donald Hagans before the *Business Week* and SECOFI Conference, "Mexico the New Opening," pp. 23-24.

[35] One U.S. industry consultant familiar with environmental regulation at the border asserts that there are over a dozen regulatory bodies on both sides of the border that the maquiladora industry alone answers to. He asserts that this overlapping regulation has led to "great confusion and, consequently, non-compliance." Market Strategies International submission, p. 12. He suggests that one coordinating binational agency be empowered to enforce regulations and act as a clearinghouse for paperwork. A streamlined system would result in better compliance, considerably less expense, and improved monitoring and enforcement. Ibid.

become too high. As one Mexican Government official noted, "protecting the environment is a luxury activity; it has a price." Another said: "Mexico does not want industries that pollute, but we must remain competitive, that's why we don't push environmental enforcement."

Improvement of Mexican Workers' Standards and Rights.—Some representatives of U.S. labor and agricultural interests and certain Mexican participants argued that an FTA should include the commitment by Mexico to make substantial improvement in the rights and conditions of its workers, including adoption of U.S. Occupation, Safety, and Health Administration (OSHA) requirements, worker compensation and health benefits, environmental safety controls, the right of labor to organize (particularly in the maquiladoras), and increased wages. These participants did not state that Mexican laws should be exactly like those in the United States, recognizing that U.S. minimum wage levels could not be mandated in Mexico. However, they did suggest that U.S. companies which relocate to Mexico should face similar costs, which reflect the "humane" values institutionalized in the U.S. law.[36] Several participants indicated that requiring Mexico to enact similar provisions is the only way to create this "humane level playing field."

Almost all U.S. industry representatives were opposed to the issue of Mexican workers' rights being included in an FTA. They argued that protection of Mexican workers is the concern of Mexico's domestic policy, and not the prerogative of U.S. negotiators. They also pointed out that Mexican constitutional law and other law provide considerable protection for Mexican workers' rights, including very liberal severance pay (up to one year's salary depending on length of employment).

U.S. industry representatives also stated that Mexico is a developing country that needs investment and jobs, and could become noncompetitive if higher costs were imposed on businesses in terms of wages and benefits. Finally, a number of U.S. industry representatives, particularly those with maquiladora operations, insisted that they treat their workers well, providing them with meals, transportation, health care, child care and a clean working environment at least compatible with U.S. standards.

Advantages of a United States-Mexican FTA

The following section summarizes the major advantages of a United States-Mexico FTA as described by participants. In addition to views obtained from participant interviews, Commission Hearings, and submissions to the Trade Subcommittee of the Committee on Ways and Means of the U.S. House of Representatives, the Commission received as number of submissions advocating a United States-Mexican FTA. A summary of the major cited advantages for the United States and Mexico is detailed below.

Advantages for the United States

Would enhance U.S. competitive advantage in a world of emerging trading blocs

Many participants stated that a major advantage of a United States-Mexico FTA is that, in combination with the United States-Canadian FTA, it will help the United States compete more effectively in world markets. These participants asserted that the trade and investment liberalization resulting from an FTA would lead to new manufacturing and supply relationships that would contribute to the competitiveness of U.S. industries.[37] As stated by one U.S. trade expert:

> A FTA with Mexico will offer United States industry competitive advantages vis-a-vis the other major trading blocks developing in the Far East and Europe. It will allow U.S. manufacturers to more thoroughly globalize their operations, thus making the manufacture of their products more cost effective and hence, more competitive.[38]

In a recent speech, President Salinas also noted that:

> We must stress the significance of [an FTA] in raising the international competitiveness and well-being of our countries within the context of world change and particularly with regard to the formation of the European bloc and the economic cooperation of the Pacific Basin countries.[39]

[36] AFL-CIO representatives suggest that an FTA should make it the responsibility of U.S. employers in Mexico to use U.S. worker environment standards, not those of Mexico.

[37] Testimony of Michael Habig, President of the Maquiladora Association of Reynosa, Mexico, Commission Hearing in McAllen hearing, tr., p. 63. Mr. Habig stated the need for the low cost Mexican labor as follows:

> When you start looking at Europe and you look at what those people are going to be able to accomplish when they can put factories in Hungary and Poland and so on, and live off of substantially the same cost of labor as what we are having in Mexico for a period of time, I think that we have to consider that that competitive force is going to be brought against us and move to respond to it.

[38] Written submission of P.A. Jacobs, Market Strategies International, July 9, 1990, to the Commission, p. 5.

[39] Address of Mexican President Carlos Salinas de Gortari, before the Business Roundtable, Washington, D.C., June 11, 1990, pp. 6-7.

Further,

> The complementarity of our two economies is of strategic importance. Japan's success has been owed in part to its incorporation of its neighbors into production processes in a way that goes beyond mere trade relations. This has ensured their strong international competitiveness. For the European Community, the countries of Eastern Europe serve as a reserve of markets and skilled labor to substantially increase its relative advantages. For Mexico and the United States, a free-trade agreement between our countries could be the answer to this extraordinary challenge.[40]

Many participants agreed that the complementarity of the United States and Mexican economies is a principal reason why an FTA would be advantageous. They cited the benefits to be derived by U.S. industries from performing some stages of their productive process in Mexico. Increased U.S. industry access to the low-cost Mexican labor was asserted by a number of U.S. industry representatives to be necessary to secure higher paying U.S. jobs:

> The key to an abundance of high-wage jobs is to maintain technological leadership, develop the best-educated workforce, and invest worldwide to stay competitive. The true source of job security is a profit-making firm. A firm that's making profits can accumulate capital and make the investments needed to sustain the more productive, better paying, high-skill jobs that yield a rising standard of living. Such investments must yield an adequate return that can only be sustained by being cost and quality competitive in the marketplace.[41]

Increased access to Mexico's large, relatively young work force was also seen by some participants as an additional long term advantage to the United States. Some participants suggested that by the year 2000, the aging U.S. population will need the younger Mexican work force to provide services and manpower for U.S. capital investments. These participants stated that an FTA, that provides for some measure of labor mobility, will provide the basis for the movement of this younger workforce into the United States when it is needed sometime in the future.[42]

[40] Ibid.

[41] Written statement of Charles A. Vanik, Counsel for North American Trade and Investment, to the Subcommittee on Trade, House Committee on Ways and Means, June 28, 1990, p. 2.

[42] Testimony of Joseph McKinney, Professor of Economics, Baylor University, Waco, Texas, McAllen hearing, July 16, 1990, tr., pp. 142–43.

Would improve United States access to growing Mexican market of 85 million consumers

Most participants identified the elimination of tariff and non-tariff barriers to U.S. access to the Mexican consumer market as a principal advantage of an FTA. Many noted that since Mexico recently began reducing its tariffs and liberalizing its import regime, U.S. exports to Mexico have increased significantly. They envisioned U.S. sales increasing even more dramatically under an FTA. However, there was a considerable range of opinion among U.S. participants regarding the extent and speed at which the potential of the Mexican market could be realized by U.S. exporters. Certain participants stated that there would be immediate gains for U.S. producers of capital equipment as Mexico's modernization drive continues and the development of its industrial base is accelerated. Some participants stated that there would be significant immediate sales of U.S. consumer goods such as clothing, electronic goods, and appliances from "pent up" Mexican demand. For example, one participant stated that at present "approximately 15 percent of the income of the average Mexican worker is spent on U.S. products and services and in border transactions."[43] He said that "this figure will undoubtedly increase under an FTA, providing greater revenues for U.S. companies."[44]

Other participants stated that while there may be some consumer demand for smaller, low-priced U.S. goods, it will be a number of years before the majority of the Mexican population can afford "big ticket" U.S. items, such as automobiles and large appliances. Many noted that although Mexico may have a population of 85 million, in reality, the number of people who have the resources to purchase significant quantities of U.S. goods is less than 8 million.

Several participants stated that it will be at least 20 years before per capita income rises to a level where the majority of Mexican workers can purchase significant quantities of U.S. goods, services, and agricultural products. Thus, one U.S. economist stated:

> U.S. advantages in an FTA with Mexico are dynamic, long term. The big gains will come from a future, well-developed United States-Mexican economy, with high wage and productivity levels which will jointly constitute a large, powerful market.

A more optimistic view of the benefits of opening the Mexican economy is offered by an association of U.S. businesses:

> A growing Mexican economy offers significant opportunities for increased U.S. exports of manufactured goods and services. Mex-

[43] Written statement of Gerald J. Van Heuven, op.cit., p. 6.

[44] Ibid.

ico will have 100 million consumers before the year 2000. As Mexico's economy develops, its citizens will prosper, resulting in ever-increasing demand for consumer goods. U.S. companies have a unique advantage in the Mexican market because of proximity and Mexican familiarity with capital goods to support rebuilding and modernization of its infrastructure. As Mexico's industries develop, they will require materials, components, and inputs.[45]

Another commonly expressed advantage of an FTA was that U.S. firms will "get in on the ground floor" of the Mexican market. According to this view, years of advertising and close proximity to the United States has created a strong demand for U.S. products and a wide U.S. product recognition in Mexico. A few participants mentioned that, by entering into an FTA, U.S. industry can take better advantage of this product recognition. Certain U.S. trade analysts asserted that this U.S. product recognition will be increasingly valuable to U.S. exporters as Mexican incomes, employment, and wages increase as a result of an FTA.

Would benefit specific U.S. industry and agriculture sectors

Many participants stated that a number of U.S. industries and service sectors could stand to benefit from an FTA with Mexico. These include computers and software, certain steel products, automobiles, pharmaceuticals, alcoholic beverages, telecommunications, processed foods, furniture, household appliances, paper, transportation services, and metalworking equipment. If investment in areas currently restricted by the Mexican Constitution are also made part of the agreement, the U.S. financial services and petroleum/petrochemical sectors could also benefit.[46] Many of these sectors currently face some investment restrictions in Mexico. Others have had their ability to export to Mexico severely curtailed because of tariffs and nontariff barriers, such as licenses and quotas.

Many participants stated that the United States currently has a comparative advantage in certain capital-intensive agricultural sectors that could benefit from a United States-Mexican FTA. Significant export advantages to U.S. producers of dairy, livestock and poultry, deciduous tree fruits, oilseeds, grain and feed, and forest products could be provided under an agreement. Currently, Mexican tariffs, quotas, licenses and other nontariff barriers prevent free trade in these areas.

Would help develop the U.S. border area

A majority of witnesses at the Commission's three regional hearings in the Southwest and other participants from the United States-Mexican border regions expressed strong support for an FTA because, they stated, it would benefit the economically depressed border areas currently faced with high unemployment. The following statements are illustrative:

> Along the South Texas Border with Mexico, an FTA could provide opportunities for both countries to expand commerce, create jobs, reduce unemployment, and increase income and retail trade. Such an agreement would certainly attract new types of industry to the region. This could help it retain many of the best and brightest of its young people, who now look elsewhere for employment. The opportunity to live and work in an area that is experiencing progressive growth should prove attractive to many, including educators and those in service industries. It should also make the region more attractive for travel and tourism and could well attract the attention of many national companies.[47]

Another witness confirmed the benefits arising from an FTA to the state of Texas:

> The state of Texas should especially benefit from a FTA with Mexico. Much of U.S. trade with Mexico passes through the state of Texas, and economic interaction between the state and Mexico is extensive. Prospects for increased exports from the state are particularly good for oil and gas field machinery and equipment, telecommunications equipment, computer systems and peripherals, computer software and services, and certain agricultural products.[48]

Many participants from the border region expressed the hope that an FTA would result in substantial capital infrastructure expenditures by the United States and Mexican Governments along the border crossings. These participants regarded the existing infrastructure (particularly customs facilities, highways, and bridges) as outdated and overburdened and believed that an FTA could improve the situation by the encouragement of further infrastructure development programs.

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[45] The Business Roundtable, "Building a Comprehensive U.S.-Mexico Economic Relationship: Looking Towards the Future," June 1990, p. 4.

[46] Testimony of Ambassador Carla A. Hills, United States Trade Representative, before the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, June 14, 1990, p. 9. Testimony of Gary D. Nicholson, LTV Energy Products Company, Garland, Texas, on behalf of Petroleum Equipment Suppliers Association, McAllen hearing, tr., pp. 69-70.

[47] Written submission of Michael J. Blum, President, First City Bancorporation of Texas, to the Commission, p. 5.

[48] Submission of Joseph A. McKinney, op. cit.

Another cited advantage to an FTA was that it could eliminate administrative paperwork, transportation delays and extra costs, and administrative irregularities that create bottlenecks along both sides of the border. Moreover, many U.S. industry representatives stated that an FTA that permits U.S. trucks to move freely in Mexico without changing drivers and cabs would be a significant benefit to trade.

Would create jobs in the United States

A number of participants stated that an FTA has the potential to create many new U.S. jobs.[49] They said that, although an FTA will likely encourage many U.S. manufacturers to move part of their production process to lower cost Mexico, most of the equipment and components they use will be sourced from the United States. As demand for these products increases, more jobs will be created in the United States to supply them. In addition, some participants said that Japanese, Taiwanese, and Korean companies will likely increase their manufacturing processes in Mexico to gain access to the U.S. market and will likely purchase parts and components from the nearby United States.[50]

Other participants stated that the U.S. jobs that would otherwise be lost to the Far East or other areas of lower cost labor could be saved by a United States-Mexico FTA. They believed that U.S. industries that are forced to leave the United States in order to remain competitive would be encouraged to relocate the labor intensive aspect of their operation to Mexico instead of to the Far East. When the operations are moved to Mexico, U.S. jobs are saved, they asserted, because U.S. components are used and most administrative, sales, warehousing and managerial jobs are retained in the United States. In contrast, if operations are moved to the Far East, these participants stated that components and other factors of production are normally sourced in the Far East and thus would result in the loss of U.S. jobs in the production of components as well as in the assembly.[51] One U.S. economist describes the effect on U.S. jobs as follows:

> The process of rationalization in a wider market will in itself create new jobs in U.S. export industries to Mexico. Besides, trade integration with Mexico is essential to support a more cost competitive U.S. manufacturing sector. Drawing low-wage Mexican labor into our operations helps reduce costs and creates room to pay high U.S. wages for the remaining tasks.[52]

Another benefit identified by some participants is that an FTA will create an increased demand for skilled U.S. labor. Thus, if an FTA eliminates current Mexican Government restrictions or prohibitions on U.S. direct investment in the areas of banking, securities, insurance, legal, accounting, and computers, there is the potential for employment of skilled U.S. workers in these sectors.

Some participants stated that they believed that additional U.S. jobs would be created in an FTA because U.S. products could be marketed through Mexico to other parts of Latin America. For example, one U.S. trade analyst stated:

> The FTA will also offer U.S. industry increased access to a large developing market and a "jumping off" point into the rest of Latin America. The market in Latin America holds over 300 million people. While there is substantial income disparity both in the various countries and between these countries and the United States, it is a young and growing market that the United States cannot afford to ignore.[53]

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[49] Written submission of Kenneth O. Lilley, President, Association of Maquiladoras of Sonora, to the Commission, p. 1.

[50] Testimony of James Ebersole, Chairman, Border Trade Alliance, Commission Hearing in Las Cruces.

[51] This belief was stated by one U.S. economist:

> True, jobs would go south. But they would go south rather than going off to Asia as they have in the past. The choice is not to keep jobs here or lose them to Mexico. Competition from low wage countries has been on for more than a decade. Much better to lose jobs to Mexico than to Korea or Thailand. If Mexico grows, much of their extra income is spent on our goods, not those of Korea or Japan. But when we lose jobs to Asia, we cannot even count on second round recouping by extra exports [because the Koreans are not buying U.S. products].

[52] Written statement of Rudiger Dornbusch to the subcommittee an trade, House Committee an Ways and Means, June 14, 1990, p.5. One U.S. electronics manufacturing company president stated that his company's use of maquiladora operations permitted it to maintain an $8 million annual salary for 300 sales, administrative, marketing, and warehousing operation jobs in the U.S. He stated that without being able to go to Mexico to assemble the electronic components, his company would have gone out of business.

[53] Written submission of P.A. Jacobs, Market Strategies International, to the Commission pp. 5-6. In addition, the U.S.-Mexican Chamber of Commerce also agrees with this theory:

> For instance, ALADI, the Asociacion Latin Americana De Integracion, provides favorable trade conditions for Mexican-origin exports. This means that intermediate exports from the U.S. to Mexico, that are subject to processing or manufacture in Mexico may be eligible for preferential treatment in other South American markets. Consequently, Mexico has the potential to provide access to markets much greater than its own. Because Mexican-origin goods will be entitled to preferential treatment in these markets, the combined effect of an FTA with the U.S. will be an incentive for value added operations in Mexico, a significant benefit for U.S. companies.

Van Heuven Statement, op.cit., p. 6.

Would make Mexican economic liberalization permanent, providing greater certainty and predictability to U.S. investors

Many Mexican and U.S. participants noted that an important advantage of an FTA is that it would make permanent the recent Mexican foreign investment regulations liberalizing trade. Many U.S. business representatives in a variety of sectors stated that they would consider investing or increasing their investments in Mexico if they had some assurance that the executive regulations were permanent, and could not simply be easily changed by the next Mexican administration. Both Mexican and United States participants predicted that an FTA that incorporated these regulations—and hence become the law of Mexico—would increase foreign investment and the return of Mexican flight capital. One U.S. trade expert expressed the benefits as follows:

> International commitments such as an FTA, as well as prospective GATT accords, would help lock in domestic reforms instituted over the past five years that have substantially reduced Mexican trade barriers and liberalized regulations regarding foreign investment, technology transfer and intellectual property rights. Investors would be encouraged by the added security of knowing that the current favorable climate toward trade and investment is unlikely to be reversed. This added boost of confidence should help encourage continued inflows of foreign direct investment, repatriation of flight capital and new lending from international financial institutions, all needed to finance Mexican economic development and especially important given the sharp deterioration in Mexico's current account in the past two years.[54]

A further benefit of an FTA for U.S. investors is the establishment of Mexican statutes and procedures protecting U.S. intellectual property rights. At present, many of the patent and U.S. trademark rights are not recognized or protected in Mexico. Participants representing the U.S. computer, software, and pharmaceutical sectors said that U.S. investment to Mexico would be likely to increase if an FTA provides patent and copyright protection for their products. Moreover, an FTA providing trade secret protection in Mexico would, according to certain U.S. industry representatives, increase their willingness to invest in joint ventures with Mexicans.

[54] Jeffrey Schott, "The Mexican free-trade illusion," op. cit., p. 32.

Would benefit U.S. consumers with lower prices for Mexican products

Some Mexican and United States participants stated that an FTA would provide benefits to U.S. consumers in the form of lower prices. Frequently mentioned items were fruits and vegetables, as well as certain steel products and apparel. These participants insisted that the savings for U.S. consumers would be substantial for these products, even factoring in the costs of displacement of U.S workers (social welfare and relocation costs). United States labor and fruit and vegetable representatives strongly disputed these assertions, claiming that the social displacement costs in the United States would far outweigh any minimal reduction in prices for imported Mexican products.

Would decrease flow of illegal immigration into the United States

Many participants said that, as an FTA increases economic opportunities and jobs in Mexico, illegal immigration from Mexico to the United States would decrease. A representative of a large Mexican company said:

> We would like to emphasize that Mexico's objective is to export goods and services, not workers . . .. A strong and stable Mexican economy will greatly diminish the crossings of Mexican workers to the United States, consequently diminishing many of the problems experienced due to illegal migration.[55]

Numerous participants stated that the average Mexican immigrant does not want to live in the United States, but goes there seeking work. Many U.S. participants stated that the problem of illegal immigration will always exist unless the United States moves to stimulate and invest in the Mexican economy to provide employment opportunities. Several U.S. labor representatives agreed that more Mexican jobs are also the answer to illegal immigration, but, they believed, those jobs should be created by U.S. and other foreign assistance, and not through an FTA which they stated would eliminate low-skilled jobs for U.S. workers.

Advantages of an FTA to Mexico

Would provide "secure" access to U.S. Market

Most participants stated that a major advantage of an FTA to Mexico is that it would provide Mexico with greater security of access to U.S. markets and reduce its chances of being the target of U.S. unfair trade actions. In addition, many Mexican participants stated that elimination or standardization of U.S. nontariff customs, health, sanitary, and antidumping regulations

[55] Written submission of Lic. Raul Rangel Hinojosa, op. cit., p. 2.

would provide secure access to the U.S. market in a number of sectors. Stable and complete access to the U.S. market was viewed as "an important consideration for this country, which is now basing much of its growth on exports and which sends two-thirds of its exports to the United States."[56]

Many participants stated that an FTA could provide Mexico with advantages of access to U.S. markets, which currently are limited by tariffs and quotas, including textiles and apparel, steel, and certain agricultural products regulated by seasonal tariffs and U.S. nontariff health restrictions. According to Congressman Jim Kolbe of Arizona, guaranteed access to the U.S. market will "protect Mexico from harmful economic policy shifts in the United States and allow more efficient economic planning."[57]

Would increase employment

The benefit of an FTA to Mexico identified by almost all participants was the creation of jobs in Mexico resulting from the anticipated increase in investment and the opening of the U.S. market. Given Mexico's high unemployment (officially 18 percent) and underemployment rates, many participants stated that an FTA is "critical" because it would help Mexico create many of the almost one million new jobs needed each year just to keep pace with population growth. The United States-Mexico Chamber of Commerce describes the Mexican job gain potential as follows:

> The gains from trade under an FTA will produce new jobs and new opportunities in Mexico. As exports increase and specialization occurs, higher employment levels will follow that will reduce and prevent labor mobility. The resulting pattern of trade will be more stable and provide greater security and long term benefits.[58]

Other participants stated that a vibrant, growing Mexican economy would prevent the flight of higher skilled Mexican labor to the United States. An FTA would also encourage the highly motivated, but low-skilled Mexicans who seek employment in the United States to remain in Mexico. One Mexican Bank official concurred with this view, stating that "the United States is taking our best men because anyone who really wants to work hard immigrates to the United States—illegally or legally." In addition, many participants believed that an FTA would help disperse the employment opportunities offered by the maquiladora program—now located almost exclusively near the U.S border—to the central and southern parts of Mexico.[59]

In addition to creating jobs, a few participants said that an FTA might increase wages and the general standard of living in Mexico. Some participants believed that the wages would rise somewhat, citing the increase in wages in some maquiladora areas where labor is in short supply. The effects of such rising wages is described by one U.S. economist:

> Greater economic integration must be viewed more in terms of dynamic than static effects. . . . If new linkages were to lead to any significant convergence in per capita income levels, the consequences for North American production and productivity could be monumental. The gains would be due as much to the upward shift in output per worker in Mexico, and the ability of the United States to benefit from a restructuring of its production from lower to higher productivity activities, as to sector-specific productivity growth.[60]

However, most other participants stated that, because of the enormous supply of labor in Mexico, it would take years before sufficient economic activity exists to increase wages substantially.

Would increase Mexican productivity and competitiveness

Some participants stated that an FTA would benefit Mexico by increasing its productivity and competitiveness in the world market. Specifically, they stated that by encouraging production sharing and joint ventures, an FTA would permit Mexican companies to gain access to U.S. technology. Mexican participants stressed that joint ventures with U.S. companies will also allow Mexico to develop expertise in international marketing and industrial techniques. Other Mexican industrialists stated that elimination of the Mexican domestic content requirements would render their industries more competitive worldwide by permitting them to source strategic components from the United States and other foreign sources. In addition, some participants stated that an FTA would result in the adoption by Mexican companies of U.S. industrial methods and work ethics, similar to the skills learned by Mexican managers in maquiladora operations. The need for and impact of such productivity increases have been described by one U.S. economist:

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[56] B. Timothy Bennett, "Thoughts about the U.S.-Mexico free trade agreement," unpublished remarks, June 1990, p. 5.

[57] Written statement of Rep. Jim Kolbe, before the Subcommittee on Trade, House Committee on Ways and Means, June 14, 1990, p. 4.

[58] Written statement of Gerald J. Van Heuven, op. cit., p. 4.

[59] However, other participants did not believe that the maquiladora type plants were likely to locate far from the U.S. border due to logistic problems, and the ease which U.S. plant managers can live with the United States and work in Mexico.

[60] Clark Reynolds, "The economic outlook for the United States in the 1990s with implications for Mexico-U.S. relations," op. cit., p. 8.

Mexico does not seek sustained export success through low wages; this would be a formula for permanent underdevelopment. What is wanted is an increase in Mexican productivity because this is the only way to raise wages in a non-inflationary manner. What Mexico wants from free trade is investment in plants of sufficient scale and advanced sophistication to permit raising real wages.[61]

A few participants stated that Mexican productivity and competitiveness will increase from the FTA as a result of infrastructure improvements by the Mexican Government and private investors.

Would increase and accelerate capital and investment flows

In addition to a direct increase in economic activity, many participants stated that an FTA would create an economic climate making Mexico more attractive to both domestic and foreign investors. As stated by one U.S. trade expert:

> In particular, by cutting tariffs and non-tariff barriers, protecting intellectual property and promoting foreign investment, Mexico will attract new flows of capital and, in turn, new technologies, modern enterprises and new jobs. Mexican enterprises will improve their access to international capital and debt markets and reduce their costs. These developments produce additional export opportunities and increase the international competitiveness of Mexican industries.[62]

According to many participants, an FTA will stimulate a considerable amount of direct investment from the United States in infrastructure, manufacturing, agriculture, computers, automobiles, and such service industry areas as banking, insurance, and securities. Direct investment in the form of joint ventures will, in the opinion of Mexican industry representatives, make it possible for the larger Mexican export-oriented firms to compete internationally. However, a few participants noted that smaller and medium sized Mexican firms may have more difficulty attracting such direct investment or may not be in a position to enter into joint ventures.

Some Mexican and United States participants believed that just the announcement that the two countries intend to negotiate an FTA has begun to increase investment in Mexico. In addition, an FTA is expected by many participants to stimulate direct investment from Europe, Japan, and other Far Eastern countries seeking access to the U.S. consumer market.

Finally, some Mexican and United States participants said that an FTA would encourage repatriation of some of the estimated $50 billion in Mexican flight capital. One United States-Mexico joint business group estimated that "a significant portion of this capital would be attracted back to Mexico with the initiation of negotiations, and even more with the establishment of an FTA."[63] As stated by one participant, "the effect of the return of some or all of this capital, when combined with the new investment that would result from the FTA, would produce a valuable source of private finance for development of the Mexican economy."[64]

Would allow Mexico to earn foreign exchange to meet foreign debt burden

Many participants stated that an FTA will increase Mexican economic activity sufficiently to allow it to generate more foreign exchange. This, in turn, will help Mexico reduce its enormous foreign debt. This effect was described by one U.S. economist:

> A trade agreement, to the extent that it works as a lever for the reflow of flight capital, will most certainly benefit the commercial banks. Mexico has always been willing to service her debts, although the ability to do so was impaired by the crisis in the early 1980's and the subsequent decline in oil prices. With reflows of flight capital there would be enough resources both to finance imports required for growth and interest payments on the external debt.[65]

However, U.S. labor is skeptical that an FTA will do anything to alleviate Mexico's foreign debt:

> That the total new dollars flowing into Mexico due to the incentives of a free trade regime will come anywhere close to solving that country's debt problem we find completely unrealistic. To ask thousands of Americans to lose their jobs for some vain hope of Mexican debt resolution is cruel.[66]

Some Mexican participants and U.S. bank officials state that continued payments on the debt could increase the possibility that Mexico could begin receiving new financing from foreign banks.

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[61] Written statement of Sidney Weintraub, before the Subcommittee on Trade, House Committee on Ways and Means, June 14, 1990, p. 8.

[62] Submission of Robert Herzstein, Co Chairman of the Trade Subcommittee, Mexico-U.S. Business Committee, to the Commission, p. 3.

[63] Van Heuven Statement, op. cit., p. 5.

[64] Ibid.

[65] Written statement of Rudiger Dornbusch op. cit., p. 13.

[66] Written statement of Jack Sheinkman, President of Amalgamated Clothing and Textile Workers Union, to the Subcommittee on Trade, House Committee on Ways and Means, June 28, 1990, p. 2.

Would lower inflation

Another benefit identified by some participants is that the rate of inflation in Mexico could decline as a result of price competition by imports. Under the previous policy of protected import substitution, many domestic home goods produced exclusively for the Mexican market were higher priced than foreign goods subject to import restrictions. President Salinas recently noted the beneficial effect of a more open economy:

> Up to now, the opening of the economy has meant lower prices for Mexicans. So now they know that by opening the economy, we literally have forced domestic producers with tradable goods to have prices equivalent to international prices. This along with the macroeconomic changes we have installed has helped us very much to reduce inflation from almost 200 percent in 1987 to less than 20 percent last year.[67]

Disadvantages of a U.S.-Mexican FTA

The majority of participants said that they saw no long-term disadvantages to the United States pursuing an FTA with Mexico, provided such an agreement was comprehensive and stringently enforced. Those opposing the FTA option, however, were usually vociferous in their opposition. Some labor representatives, for example, were uncomfortable with what they perceived as U.S. businesses' chief motivation for favoring an FTA: access to an inexpensive supply of labor at the expense of U.S. workers. These participants expressed the view that U.S. industrial competitiveness could be better enhanced via investment in higher technology, rationalization for greater efficiency, and better education of the U.S. workforce rather than via investment in off-shore production facilities. Several participants commented that the disparities in levels of development between the two countries do not bode well for U.S. workers. According to one participant:

> . . .Canada at least, has wage levels, living standards, and regulatory structures similar, if not superior to the United States. A free trade agreement with Mexico, a country where wages and social protections are almost nonexistent when compared to our own, simply invites disaster for U.S. workers.[68]

A number of participants representing different segments of the U.S. agricultural sector also adamantly opposed a United States-Mexico FTA. Although noting that Mexico also produces fruits and vegetables during the United States' "off season," U.S. fruit and vegetable producers in particular, believe that an FTA would have a negative effect domestic production. They rejected the argument that Mexican agricultural trade is complementary and not competitive trade.[69]

Virtually every participant said that the establishment of a United States-Mexican FTA would require some economic adjustments in both countries. They noted that some Mexican industries, unable to compete with their larger, more efficient U.S. counterparts, would be forced to contract. Likewise, some of the more labor-intensive and lower wage industries in the United States would have trouble competing with their Mexican counterparts and would also have to contract. Most participants agreed that Mexico, as the smaller partner in the arrangement, would gain more from an FTA in the long run than would the United States but, conversely, would suffer more in terms of adjustment costs. A minority opinion expressed by one much-published critic of the FTA option suggested, however, that the United States should refrain from entering into an FTA because it is already benefitting from the unilateral reforms Mexico has undertaken and has nothing else to gain.

The following section summarizes the major disadvantages of a United States-Mexico FTA as described by participants in the study. In addition to information obtained from interviews and hearing testimony, the Commission received a number of submissions opposed to, or containing reservations about, a United States-Mexico FTA.

Disadvantages for the United States

Would adversely affect U.S. workers

The disadvantage cited most frequently among participants was that a United States-Mexican FTA is likely to result in job losses in the United States as companies shift their production to lower cost Mexico. Almost all of the participants, whether supporting or opposing the concept of a United States-Mexican FTA, acknowledged that any agreement would likely accelerate the process of eliminating low-paying jobs in the United States. Many believed that production sharing would be a logical consequence of any agreement, with the labor-intensive aspects of U.S. production carried out in Mexico, while Mexican firms would rely on the United States for the more capital- or technology-intensive aspects of their production processes. As

[67] David Asman, "President Salinas on Mexico's economy," *Wall Street Journal*, Apr. 4, 1990, p. 3.

[68] Written statement of Mark Anderson, Economist, AFL-CIO to House Committee on Ways and Means, June 29, 1990, p. 2.

[69] Written Statement submitted on behalf of the Florida Fruit and Vegetable Association before the Subcommittee on Trade, House Committee on Ways and Means, June 28, 1990.

a result, labor-intensive industries in the United States were viewed as being particularly vulnerable to displacement, with unskilled and semi-skilled workers suffering disproportionately. Those sectors cited as likely to be particularly affected were autos and auto parts, apparel, electronics, toys, fresh vegetables, and food processing sectors.

A few participants also expressed concerns that the net effect of an FTA with Mexico or any other developing country will contribute to the unequal distribution of income in the United States and would ultimately cause U.S. wages to fall. A U.S. academician writes:

> Although free trade between the United States and Mexico would increase total incomes in this country, it would also redistribute income away from unskilled and semi-skilled labor and toward professional and technical labor and capital. Because the "winners" would be people whose incomes are already above average, while the "losers" would start with below average incomes, this arrangement would make the distribution of U.S. incomes more unequal.[70]

Representatives of the United Automobile, Aerospace, and Agricultural Implement Workers of America (UAW) and the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) argued that the potential to create new jobs in the United States under an FTA is "vastly overrated" and that the net effect will be lost jobs and benefits. In their view, the "much-ballyhooed mutual benefits of an FTA will accrue mostly to the business interests and financial institutions on both sides of the border; consumers and workers will receive little." Moreover, they suggested that U.S. companies will use the threat of moving operations to lower cost Mexico to compel labor to make concessions during labor negotiations:

> As the dollar value of real wages in Mexico fell below those in Korea, Singapore, Brazil, and other developing countries, U.S. firms moved production to Mexico, or threatened to do so unless American workers lowered their wages and benefits, weakened workplace protections or made other concessions. Some workers have been forced to accept these conditions to save jobs.

A representative of a large textile and apparel workers union said that the social consequences of large scale job losses, even if only in the short term, could be enormous:

> Nobody in the United States has given serious thought to what we are going to do with the tens of millions of Americans who represent 30 percent of the workforce and are semi-illiterate and basically unskilled. There will be enormous social costs—welfare, nutrition, unemployment, crime; the United States should not encourage the loss of additional low-skilled jobs.

An executive of a large U.S. apparel company asked the question:

> Are we going to move all U.S. production to a place where there are no employee rights or benefits? Is it right to lay off the U.S. employee who has been with the company for 20 years and go down to Mexico and hire a 16 year old?

Many participants, including those who strongly supported a United States-Mexican FTA, expressed concern about the potential loss of jobs in the United States. Most noted, however, that there is a structural long-term problem (i.e., education and training inadequacies) that exists in the United States even without Mexico's inexpensive supply of labor. They suggested that these inadequacies are what makes the United States less competitive in world markets and must be addressed.

One well-known trade expert who supports the concept of a United States-Mexican FTA said that while there is truth to labor's complaints about job losses, the United States, in the long-term, will have more and better jobs in a more competitive society. He commented that "labor, farmers, and small industry do have legitimate complaints about dislocation but there should be ways to mitigate complaints through trade assistance programs." For the dislocation of jobs that will occur, he suggested that the United States "devise some type of safety net to cushion the blow." Trade adjustment programs that provide training, education, and relocation expenses were viewed by a number of participants as viable safety precautions from job losses. However, one academician cautioned against seeing such programs as a panacea:

> Retraining laid-off workers, with the goal of making them high-income skilled workers, is often seen as the answer, but experience with such programs has been very disappointing. Most affected workers have limited educational backgrounds, and many are not young. Despite training efforts, they generally have lower incomes than in the jobs they lost.[71]

Other participants said that the displacement of low wage earners is going to happen in any event—either production will shift to Mexico or to countries in the Far East. In the former scenario, they expressed the view that the United States at

[70] Robert M. Dunn, "Low-paid workers would lose even more in a free-trade pact with Mexico," *Washington Post*, Aug. 1, 1990, p. F3.

[71] Robert Dunn, op. cit.

least retains some of the jobs and gives the Mexicans money to buy U.S. goods. One former U.S. trade negotiator, for example, stated that, although he saw no disadvantages to an FTA with Mexico, he did believe that a "shift" in sectors from one site of production to another would result. In particular, he said that auto parts, glass, fruits and vegetables, and food processing operations would likely shift to Mexico. He said, however, that this is a process which cannot be avoided:

> Regardless of whether or not an FTA is completed, the movement of low-skilled manufacturing jobs will be out of the United States to low cost production areas. If not to Mexico, then to the Far East. It is certainly better for these jobs to go to Mexico. If the jobs are in Mexico, the Mexicans will purchase U.S. products with their wages and companies in Mexico will buy U.S. parts for their production. In both scenarios, U.S. jobs are created.

Several high-level U.S. Government officials said they did not believe a United States-Mexican FTA would trigger a mass exodus of U.S. jobs to Mexico because labor cost is only one factor of production. They asserted that other factors are just as important in an investment decision, including industrial infrastructure, availability of services (such as engineering services), raw materials, and supplier networks. These participants said it was unlikely that Mexico's inexpensive labor by itself would result in an avalanche of redirected U.S. investment. A few participants did note, however, that Mexico's combination of low wages and slacker environmental and worker safety requirements might be a sufficient inducement to encourage U.S. industrial relocation to Mexico.

Would hurt certain segments of the U.S agricultural sector

The Commission heard testimony and received written submissions representing a variety of agricultural sectors that believed domestic production would be at risk or could even be virtually eliminated under an FTA. These sectors included citrus, tomatoes, asparagus, mushrooms, avocadoes, and processors of cauliflower and broccoli.[72] Several representatives of these sectors said that their industries have already been hurt by massive increases in imports of vegetables from Mexico because the low-wage Mexican field laborer has made U.S. products noncompetitive. Several participants suggested that agriculture be exempted from any FTA with Mexico. Said a representative of a growers and processors association:

> By eliminating or modifying the existing tariff, or developing a free trade agreement with Mexico, we as a nation make it our policy to export jobs, increase our dependence on imported food and reject our social responsibility to our citizens who work to supply the domestic processing industry.[73]

Several participants referred to the shifts in production that would occur under an FTA as growers sought to take advantage of each country's comparative advantage. It was suggested, for example, that farms in the California Salinas Valley would not be able to compete with Mexican produce and would have to grow something other than fruits and vegetables. Similarly, Mexican farmers would have to give up producing corn and grains—crops which are not competitive with the United States.

Most United States and Mexican participants agreed that the agricultural sector would be one of the most difficult aspects of an FTA to negotiate and that agricultural liberalization might not be feasible in the short run. Several noted that agricultural trade was not fully liberalized in the United States-Canadian agreement and that it has also proven difficult to liberalize in the Uruguay Round. Nonetheless, the majority of participants believed it is important that any United States-Mexican agreement include major concessions in agriculture.

The majority of participants representing U.S. agricultural interests expressed support for the general concept of freer trade with Mexico, but generally did not support the establishment of an FTA. Those who did support the idea of a United States-Mexican agreement emphasized the need to proceed cautiously.

Would hurt the economies of the U.S. border areas

A number of participants remarked that the infrastructure in the border region is already inadequate and could be further strained by the increased trade resulting from an FTA. Several participants mentioned that, as tariffs are eliminated and U.S. manufacturers of consumer goods gain more confidence in the Mexican market, U.S. retailers along the border will be hurt when manufacturers sell directly to retailers and wholesalers in Mexico. This decline in income could affect the economy of entire communities because, in some border towns, retailing to Mexican customers is the predominant industry. As one businessman from McAllen, Texas stated:

> Our local economy here depends to a very large degree upon the opposite of a free trade agreement. The fact that goods are not available in Mexico or that they're only

[72] For additional opinions regarding the agricultural sector, see ch. 2 later in this report.

[73] Testimony of Paul Fanelli, National Association of Growers and Processors for Fair Trade, Tucson hearing, tr., p. 66.

available in Mexico at much higher prices, drives our local economies here. Our retail sales, our wholesale sales, our hotel industry to a certain extent, our tax base—much of our employment is generated by Mexicans who come here to buy goods that are available here and not available in Mexico. There's no doubt in my mind, no doubt whatsoever, that the adoption of an FTA will cut that kind of business off at the ankles and with it devastate that segment of this economy.[74]

One businessman from the border area said that an FTA "will primarily benefit Mexico and industrialized areas of the United States. The border region will become one big truck stop." He did not believe that an FTA should include special incentives for the border region but said instead that it is up to the people who live in the region to do what is necessary to make their region more attractive to investors. He said that:

People come and look at the U.S. border region for investment projects and then they look across the border. What is going on over there is detrimental to the development of the U.S. side —it is hard to compete with a $4.00 a day wage rate when your wage is $5.00 per hour. Investors who want to move to the south United States keep going and cross the border.

Would have negative effect on the environment

A number of participants commented that the less stringent environmental standards in Mexico have contributed greatly to the rapid deterioration of the quality of the water and air along the border. Several participants asserted that the lack of enforcement of existing standards and lower environmental standards will encourage U.S. producers to move to Mexico rather than invest in pollution control equipment and technology. One participant noted that this relocation has already started with the furniture industry and that more are likely to follow as amendments to the U.S. Clean Air Act raise concerns among manufacturers. As one participant said, "Guaranteed access into the U.S. from Mexico would be a strong incentive for relocation."

While some participants noted that an FTA might lead to a migration of Mexicans to the border and place a strain on the existing infrastructure and worsen environmental problems, other officials noted that an FTA might encourage inland development and actually restrain border development.[75]

Would not necessarily improve U.S. trade balance

While many participants commented that access to Mexico's market of over 85 million consumers was an advantage to an FTA, others speculated that, while the Mexican market is undoubtedly large, the United States would gain little from expanded access to that market, given the relatively low level of disposable income available in Mexico. Said one participant:

Our analysis indicates that there is insufficient disposable income, insufficient consumer or industry demand to attract American exports in anywhere near the amount necessary to offset the sure acceleration of Mexican exports to the United States....The current U.S. trade deficit with Mexico will grow, not shrink.

Several trade experts commented that U.S. interest in a United States-Mexican FTA seems to be more political than economic and with a more long-term than short-term focus. Wrote one expert:

U.S. economic gains from freer trade with a country whose economy is only one-twentieth its size would be modest overall—though the boost to southwestern states such as Texas, and New Mexico, and border cities such as San Diego, would be noticeable.[76]

Several participants thought it unlikely that Mexico and the United States would agree on liberalization of nontariff barriers comparable to commitments made in the United States-Canada agreement. Mexican and United States trade experts pointed out that both countries are likely to seek exclusions, resulting in an agreement that is less than comprehensive. Many participants said that both countries will try to get as many concessions as possible during negotiations, while trying to maintain protections in areas they find sensitive in their own country. Some Mexican participants said, for example, that further liberalization of Mexico's direct foreign investment rules, including unrestricted foreign participation in Mexican financial services, might create problems for Mexico's domestic industries, therefore financial services should not be on the negotiaty table.

Would further fragment the world into trading blocs

Most participants agreed that there is an increasing tendency among countries to align themselves into trading blocs. While many

[74] Testimony of Allen E. Smith, Allen E. Smith Associates, McAllen hearing, tr., p. 215.

[75] One official noted that the cause of sewage treatment problems along the border is directly related to the

[75]—*Continued*
vast increase in population on the Mexican side of the border. The Mexicans do not have the financial resources to construct water treatment infrastructure to keep up with their rapidly growing population. FTA could have detrimental effect if significant resources are not expended to provide for water treatment plants.

[76] Jeffrey Schott, "The Mexican free-trade illusion," op. cit., p. 32.

thought such moves were an important step toward remaining competitive in world markets where competition has become increasingly intense, a few participants thought the move toward trading blocs will ultimately hurt the GATT and the multilateral system. Countries that remain outside of trading blocs, they said, will suffer. According to one trade expert:

> For the sake of the global trading system, the United States should not consider any other bilateral pacts after Mexico. To put it bluntly, a succession of bilateral agreements is a recipe for RIBS—resentment, inefficiency, bureaucracy, and stupid signals. Resentment would prevail among the outsiders. Inefficiency would be spawned by the fragmentation of markets. Bureaucratic nightmares would result for governments and private firms trying to cope with discrimination among countries. And stupid signals would be sent to those policymakers in developing countries who are proponents of markets and multilateralism.[77]

Would allow Mexico to seek exemption from U.S. trade laws

Several participants speculated that Mexico might seek exemption from the dumping and countervailing duty provisions of U.S. trade law. One participant noted in a submission:

> We know from our experience with the U.S.-Canada FTA negotiations, that the term "secure access" means an attempt to gain an exemption or favorable treatment under U.S. unfair trade laws. We would oppose any proposal to give preferential treatment to Mexico under U.S. antidumping or countervailing duty laws, because Mexico's economic development should be on the basis of market forces—not unfair trade practices.[78]

Disadvantages of an FTA for Mexico

Would not significantly benefit Mexican labor

Several participants did not believe that an FTA would help Mexico solve its unemployment problem. They noted that the types of industries likely to be attracted to Mexico as a result of the agreement would be assembly-type operations that are "the lowest-paying and least value-added of all manufacturing jobs."[79] Moreover,

> . . .the maquila growth of the last several years has mainly attracted young women, aged 16 to 25, into the workforce who were not there previously. Almost no jobs were created for unemployed males or anyone over 30 where the unemployment problem of Mexico is most debilitating.[80]

Wrote another participant:

> American jobs have moved across the border to pay predominantly young women far less than one dollar per hour. . . .A few more Mexican workers are indeed employed because of these investments, but do these jobs provide a foundation for a brighter economic future for Mexican workers? We think not.
>
> The maquiladoras constitute a model of economic development tied to having the lowest wages in the world to attract multinational corporate investment that produces for foreign, not domestic, markets. Poorly paid workers can't afford to buy "internationally competitive" products. We have not seen Mexican workers' living standards raised by this economic development strategy.[81]

Further,

> There will be more U.S. and other foreign companies shifting production to Mexico as an alternative to U.S. production, to pay pitifully low wages that perpetuate poverty rather than relieve it. Workers in previously protected Mexican industries, such as its domestic auto industry, will face intense pressures to lower their wages to the maquiladora level, just as American workers have faced this pressure. In the process, many will be displaced from their jobs. The maquiladoras have encouraged U.S. immigration by attracting impoverished Mexicans to the border where they come in contact with, and have access to, the U.S. side. Those who lose their jobs in the integration process are likely to swell this pool of immigrants.

A number of participants disagreed that an FTA will put upward pressure on Mexican wages. They suggested that because Mexico has a huge pool of unemployed and underemployed labor, wage increases resulting from an increased demand for labor would not occur for a long time. Accordingly, one participant said:

> An FTA will result in something resembling an expanded maquiladora program and that is not a model which is good for the Mexican

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[77] *The International Economy*, "A free-trade free-for-all," June/July 1990.
[78] Written submission of Frank Fenton, Sr. Vice President, American Iron and Steel Institute to the Commission.
[79] Written Statment of Jack Sheinkman, Amalgamated Clothing and Textile Workers Union, subcommittee on Trade to House Committee on Ways and Means, June 28, 1990.
[80] Ibid.
[81] Written statement of Steve Beckman, Economist, United Auto Workers Association to the Subcommittee on Trade, House Committee on Ways and Means, June 28, 1990, p.2.

worker. Since cheap labor is the main attraction for U.S. entrepreneurs, they will want wages in Mexico to remain low and working conditions poor—the ultimate benefits for Mexican labor expected from U.S. investments, i.e., that competition for labor will eventually raise wages and improve working conditions, are not realistic.

Nor did these participants believe that an FTA would necessarily stem the flow of illegal immigration. In addition to the large wage differential between the two countries (Mexico's average daily wage rate is about $6.00 a day in the north part of the country and about $3.00 a day in the south), Mexico's combined rate of underemployment and unemployment is estimated at about 40 percent. In addition, about one million new job seekers enter the labor force every year. Several participants believed that the combination of these factors indicates that an FTA will be unable to produce a rapid increase in Mexican living standards. They asserted that immigration, legal and illegal, to the United States will continue to be an attractive alternative in the short and medium terms.

Would hurt the small Mexican farmer

Several U.S. and Mexican participants said that the small Mexican "ejido" farmers would be big losers under a comprehensive FTA. They noted that more than half of the arable land in Mexico is under the "ejido" system, a form of land tenure in which a peasant community collectively owns a piece of land and the natural resources and houses on it. According to these participants, as Mexico's population has grown, the parcels worked by individual farmers have shrunk—in many cases to an acre or less—making economies of scale impossible.[82]

Certain participants asserted that Mexico's agricultural system would require a major overhaul if it is to benefit from an agreement with the United States. Many of these participants, however, also noted that, because of Mexico's large farm population, small average land holdings, low productivity, and the historical sentiment attached to the ejidos, needed reforms would be especially difficult to undertake. One analyst wrote:

On purely economic grounds, a complete overhaul of the ejido system would appear to be in order. But official recognition of ejido ownership was one of the principal issues over which more than a million people lost their lives during the Mexican Revolution, and to this day many Mexicans maintain a mystical attachment to the institution. In addition, Mexican law states that ejidos are "inalienable, nontransferable and nonattachable," conditions that drive away investment that might otherwise flow into agriculture.[83]

Without massive reform, several participants believe that small Mexican farmers would be unable to compete with large agricultural interests. Many would be forced into cities, adding to the already large supply of unemployed labor.

Would hurt certain segments of Mexican industry

Several Mexican critics of a United States-Mexican FTA expressed concern that Mexico is embarking on a path of economic integration that will ultimately be detrimental for its small and medium-sized businesses. One well-known Mexican academician said that under certain conditions, Mexico could benefit from an FTA with the United States but that present conditions are not right. This participant said that an FTA is foreseeable in the future "but not now, not quickly, and not before Mexico has a chance to see if its economic reforms work." He asserted that the issue is further complicated by the fact that Mexico's recent trade and investment liberalization reforms "have been more expensive then originally thought. The general thrust of the reforms were accurate, i.e., open up the economy, but the reforms were too fast, too drastic, and too indiscriminate." Moreover,

> . . .the [integration] process should be undertaken as part of a patient, long-term, well considered political and international strategy. This includes a profound study of exactly what type of implications such a deal would have for Mexico, sector by sector, region by region. . . .it must be clear to everyone, particularly in the United States, that this entire process cannot and will not work as a quick fix undertaken for reasons of political expediency. Countries that negotiate in a hurry generally give away the store, and Mexico's store has been given away far too many times.[84]

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[82] A trade expert from an international banking institution described the "ejido" system in the following manner:

> The Mexican ejido system dates back to the Mexican Revolution. The land cannot be rented or sold and if it is not worked the government may seize it. The land cannot be used as collateral because there is no title to the land. It doesn't lend security to the owner, and does not encourage workers to develop the land. The land is inherited and after it is divided among the descendants of the original occupant, there is not enough to permit the descendant to become self sufficient.

[83] Larry Rohter, "Stop the world, Mexico is getting on," *New York Times*, June 3, 1990, p. A6.

[84] Jorge G. Castaneda, "The Mexican free trade express," *The International Economy*, June/July 1990, p. 31.

This sentiment was echoed by several Mexican businessmen who, while supporting a United States-Mexican agreement, also expressed reservations about the speed with which closer integration between the two countries is occurring. A few businessmen pointed out that Mexico has carried out important economic restructuring in the last 4 to 5 years and that further structural adjustment, such as that required by an FTA, will require time. They noted that, while an FTA can help Mexico create the one million new jobs it needs each year, domestic Mexican industries will find competing against U.S. companies very difficult. One Mexican trade expert pointed out that "the wage differential will create winners and losers in that U.S. labor and Mexican capital will lose and U.S. capital and Mexican labor will win." He suggested that for the equitable distribution of losses and gains to occur in Mexico, the pace of political modernization in that country will have to quicken.

One representative of a large Japanese company located in Mexico said he did not believe that Mexican companies will be able to compete against U.S. companies or that an FTA will help Mexico grow out of its "third world" status. Another Mexican businessman predicted that small Mexican companies would disappear in the face of U.S. competition. He mentioned that he and other Mexican businessmen were concerned over the "invasion" of U.S. products that have resulted from recent import liberalizations; sales of comparable Mexican products are reportedly down by 23 percent. This participant suggested that only medium and large companies would be able to increase their quality and productivity:

> How can Mexico compete? It lacks a market that can afford to buy, it will be forced to export surpluses; everyone will want to export but who will buy Mexican products?

Another Mexican participant said that one of the country's goals is to develop technologically. However, considering the present disparity of economic and cultural development between the two countries, he believed it possible that Mexico could get "stuck in its current comparative advantage niche" and never really develop.

One trade analyst reported that only Mexico's large agricultural concerns would be able to compete in the face of U.S. competition and that only a handful of its manufacturing companies would be able to compete. He predicted that, with so many business failures, massive unemployment on the Mexican side would result and corresponding political turmoil could occur.

A few participants mentioned that unequal economic development in the northern part of the country will place more stress on existing infrastructure. They predicted that the contrast between the north and the southern part of the country, already pronounced, will worsen under an FTA so as to contribute to social turmoil. Moreover, several participants emphasized that an FTA will not be a panacea for all of Mexico's economic problems and noted that there is always a possibility that the negotiations could go badly or remain inconclusive, thus creating serious political problems for Mexican President Salinas.

Implications of an FTA For Third Countries

Most participants, in particular academic economists and government officials, accepted the premise that the world economy is dividing into major trading blocs. European integration, the United States-Canadian FTA, and the possibility of a formidable alliance featuring Japan and its East Asian neighbors were viewed as the inevitable consequences of countries forming alliances to protect their economic interests in an increasingly competitive world. As one trade analyst said, ". . . virtually nobody can go it alone anymore." Consequently, few participants said that a United States-Mexican FTA would have long-term adverse effects on third-country interests. Most participants chose to emphasize the positive, long-term, trade-creating effects of an FTA and minimized the potential problems for third countries resulting from a diversion of trade or investment.[85] A number of participants said, however, that Japan and East Asian countries might be adversely affected by a United States-Mexican FTA. They suggested the likelihood that U.S. imports from these sources would shift to Mexico. However, participants generally believed that the Asian countries, in addition to some other third countries, would circumvent such trade diversion by seeking access to the U.S. market through investment in Mexico.

Canada

The majority of participants conceded that recent developments towards a United States-Mexican FTA have caused some concern among Canadians that such an accord might erode the benefits they expected from their own FTA with the United States.[86] A former U.S.

[85] Trade diversion occurs when an FTA, by selectively decreasing protection, creates incentive for countries to substitute imports from the partner country for imports from third countries. In a U.S.-Mexican FTA, diversion of U.S. imports in favor of Mexico would depend on the degree of preference Mexico enjoys in the FTA relative to other countries.

[86] The U.S.-Canada Free Trade Agreement, in effect since January 1989, eliminates nearly all tariffs between the two countries over a 10-year period, including such protected sectors as textiles, clothing, petrochemicals and steel. It relaxes regulations on bilateral investment and addresses other important bilateral issues, including energy, temporary immigration, and customs fees. In addition, it introduces an innovative bilateral dispute settlement mechanism.

trade negotiator cited the feelings of a group of Toronto businessmen who complained to him: "How could the United States do this to us?" One Canadian Government official said that he "simply could not visualize an FTA between an industrial giant like the United States and a developing country like Mexico." Under such circumstances, he was skeptical of how much trade liberalization could actually be accomplished. A number of Canadian participants asserted that a U.S.-Mexican FTA would be neither harmful nor beneficial to Canada.

Nonetheless, many participants expect Canada not only to officially endorse the United States-Mexican FTA negotiations, but also to seek active participation in them.[87] Opinions differed, however, regarding when Canadian participation should begin, and whether or not Canada should actively participate in the negotiations or assume an "observer status." Some participants suggested that Canada should enter the talks as a full-fledged partner, and its role should begin simultaneously with initiation of the negotiations. As one trade analyst has written:

> It would appear that Mexico has been achieving its rapid export growth by bypassing many U.S. import-sensitive industries and going directly into the kinds of secondary manufacturing Canadians have long coveted—e.g., power generation equipment, telecommunications equipment, and electrical equipment. Canada cannot afford to have Washington unilaterally decide which U.S.-Canadian industries will be sheltered from Mexican-based competition through transitional provisions. U.S.-Canadian consultations will not be enough. Canada must be in the game when the dealing begins.[88]

Another option offered by some participants was that Canada should join the United States-Mexican FTA negotiations only after the negotiations are already well under way. Still others suggested that Canada negotiate a bilateral FTA separately with Mexico, and then the three agreements (U.S.-Canada, U.S.-Mexico, Canada-Mexico) could be merged at a later time. Several participants thought the latter option might be a more viable approach than what could be exceedingly complicated trilateral negotiations.

A number of participants believed that Canada will seek to join United States-Mexican negotiations at an early stage to protect its own interests, and thereby will "trilateralize" the talks.[89] Among the incentives cited for Canada to participate in United States-Mexican talks at the outset include its due concern for the only developing nation in North America, and having Mexico as an ally during discussions of certain contentious issues with the United States. Some Canadian participants viewed a trilateral FTA as an extension of the existing United States-Canadian FTA. Some participants indicated that an active role by Canada in trilateral negotiations during Mexican FTA talks would speed up the formation of a North-American FTA.

Most participants expressed concern that Canada's presence at the negotiating table could slow down the negotiating process. Several high-level Mexican and U.S. Government officials echoed the view that bilateral negotiations will be complicated enough without a third party. A few participants suggested that Canada's position on participation in the United States-Mexican talks and its timing will be determined in large measure by the signals Canadian businesses and labor representatives give to its Government.[90] Canadian labor and nationalists appear to be firmly in opposition to a United States-Mexican FTA.[91] Labor representatives in Canada, as in the United States, are concerned about the deleterious effects of low-cost Mexican labor on domestic workers.

Canada-Mexico bilateral relations

Several participants stated that while the current level of direct Canadian-Mexican trade and investment is very small, bilateral ties could easily expand as a result of a Canada-Mexico FTA.[92] Among the advantages to Canada from such an agreement is access to the growing Mexican market. A Canadian official remarked that Canada has one distinct advantage over the United States in forging bilateral economic ties with Mexico: Canada does not carry the historic baggage of Mexican resentment that the United States carries.[93]

[87] The U.S.-Canada FTA allows the parties to enter into FTA negotiations with third countries. There is no legal problem for the United States as Canada's FTA partner to conclude a bilateral FTA with Mexico or for Canada to join as a third party in a U.S.-Mexican FTA.

[88] *Globe and Mail* and *American Banter*, "Report on free trade," May 7, 1990, p. 7.

[89] One participant said that Canada might wish to trilateralize the talks for the sake of reopening some contentious bilateral issues with the United States.

[90] Several participants commented that current preoccupation by the Canadian Government with Quebec and related controversial domestic issues could jeopardize Canada's participation in any U.S.-Mexican FTA negotiations.

[91] The Canadian Labor Congress (CLC) maintains its opposition to the U.S.-Canada FTA, and already expressed its objection to Canada's participation in U.S.-Mexico FTA negotiations.

[92] Total two-way trade reached $2.4 billion in 1989 with Mexican exports approximately twice those of the Canadian. Canadian exports were divided chiefly among food, live animals, manufactured goods and machinery and transportation equipment, while those of Mexico were heavily concentrated in machinery and transportation equipment.

[93] In January 1990, the Seventh Meeting of the Canada-Mexico Joint Ministerial Committee was held in Ottawa. Agreement was reached on the need for a considerable expansion of Canada-Mexico trade, and closer cooperation in international economic matters,

Other participants were doubtful that a Canadian-Mexican FTA would increase interest in investing in Mexico, primarily because Canada does not have the proximity which makes Mexico such a desirable location for U.S. investors. Participants noted that, while Canada has only 12 maquiladora plants in Mexico, some Canadian investors have begun taking an interest in Mexico in the last 2 years, particularly in recently privatized sectors, such as telecommunications. However, participants generally doubted that the possibilities for expanding direct economic ties between Canada and Mexico would be great. As one academic analyst noted, for both Canada and Mexico, economic linkages with the United States are much more important than those links with each other.[94] Therefore, he asserted, future Canadian-Mexican linkages will be forged largely indirectly, through the relationship of both countries with the United States.

Implications for Canada of a U.S.-Mexican FTA

A number of Canadian participants said that a United States-Mexican FTA would have only a minimal impact on Canadian exports. Proponents of this view believed that such an agreement would not cause major trade shifts, since the U.S. duties on imports from Mexico that would be abolished by an FTA are already low. Other participants stated that, even though Canada and Mexico are competing in some of the same broad industry categories (for example, certain areas of machinery and equipment) a further breakdown of these product groups reveals few areas of competition. One participant asserted that a United States-Mexican FTA would not divert a considerable amount of U.S. investment from Canada to Mexico, since the choice of U.S. investors to locate in Canada is most often based on considerations that override the low labor cost advantage Mexico can offer.

However, most other participants believed that Canada is vulnerable to adverse effects from a United States-Mexican FTA. These participants argued that Canada will suffer shifts in terms of both investment and trade flows as businesses seeking to take advantage of the United States-Mexican agreement divert their investment to Mexico and the United States. Moreover, according to a U.S. labor representative, Canadians view themselves as having the comparative advantage of lower wage rates than those that prevail in the United States. A United States-Mexican FTA, this participant claimed, will make Canada lose export sales to lower-cost Mexican products, and could result in a massive loss of Canadian jobs. Several participants also suggested that while the danger of job loss exists predominantly for labor-intensive industries, Mexican competition could also cause problems for certain high-wage industries in Canada, such as petrochemicals.

A few participants stated that a United States-Mexican FTA could dilute the benefits of the United States-Canada FTA by making Mexican products more competitive than Canadian products on the U.S. market. They identified several Canadian industries that might suffer from direct Mexican competition in the United States, especially telecommunications equipment, electronic equipment, and power generation equipment. Some noted that the share of these product categories in both countries' overall exports to the U.S. market has increased sharply in recent years. Other industries identified by participants as perhaps causing concern for Canadians included the energy sector, the automotive industry and, as cited above, petrochemicals.

A number of participants expressed the expectation that inclusion of Canada in United States-Mexican FTA negotiations would result in a North American FTA, thus creating the largest market in the world, with over 360 million consumers. Such a large market would create a considerable amount of new trade and economic linkages in all three North American countries, based on the comparative advantage of each. Participants holding this view said that all three countries would benefit. Moreover, most of the academicians pointed out that a North American FTA is necessary to enable North American companies to meet the escalating competition of other economic blocs, such as those of Europe and East Asia.

Several participants also emphasized that the complementarity of the North American countries' economies augurs well for a continent-wide FTA. According to one academician:

> ...the complementary nature of the economies of North America, with abundant natural resources in Canada and Mexico, abundant skilled labor, capital and technology in both Canada and the United States, and abundant unskilled and semiskilled labor in Mexico, creates a natural integrated trade region.[95]

Some participants speculated that an economic arrangement between the three North American countries could come to life by the end

[93]—*Continued*
including solving the debt problems of developing countries. This meeting was followed by a visit of Prime Minister Mulroney of Canada to Mexico in March, at the invitation of President Salinas de Gortari, for the purpose of signing a Canada-Mexico Framework Agreement on bilateral trade and economic relations.

[94] Both Canada and Mexico conduct over two-thirds of their trade with the United States, and U.S. investment is considerable in each country. In addition, there is substantial Canadian investment and large sums of Mexican flight capital in the United States.

[95] McAllen hearing, tr., p. 135.

of the century. One U.S. trade analyst noted that this arrangement could go well beyond free-trade provisions, approaching a common market. Participants suggested it could cover, for example, exchange-rate relationships among the U.S dollar, the Canadian dollar and the Mexican peso, but would likely exclude provisions for the free movement of labor.

However, according to other analysts, a North-American FTA could lead to a contraction of labor-intensive industries in both the United States and Canada, as all three economies restructure themselves according to their comparative advantage. However, others pointed out that, over time, the wage-rate differential between Mexico and the other two North American countries would narrow, lowering the incentive for such restructuring.

Caribbean Basin Countries[96]

Views on the possible impact a United States-Mexican FTA could have on the developing economies in the Caribbean region ranged from concern that trade and investment diversion would be significant, to optimism that the Caribbean countries would benefit from a United States-Mexican FTA. Some participants expressed concern that the preferences the Caribbean countries currently enjoy from the United States under the Caribbean Basin Initiative (CBI) might be diluted.[97]

A number of participants mentioned that transportation difficulties, lack of economies of scale, infrastructure inadequacies, and a myriad of other difficulties have always hindered investment in the majority of Caribbean countries. As one high-level U.S. Government official said when commenting on the incentive programs available to the region: "If the Caribbean region was not one of the least attractive places in the world to invest, it would have developed already." One former U.S. official said that the CBI program has not been an unqualified success because of the exception of many products from U.S. duty-free treatment.[98] Two major Caribbean manufacturing industries, textiles and leather are exempted from the CBI program and were mentioned by a number of participants as potential victims of trade diversion should a United States-Mexican FTA develop.

A number of participants agreed that trade diversion could occur because of Mexico's many advantages, such as lower production costs, closer proximity to the U.S. market, abundant natural resources, and large domestic market. In order to prevent the economic collapse of Caribbean countries and the ensuing political turmoil, some participants proposed that the Caribbean ought to be made part of a United States-Mexican FTA and share all the U.S. concessions Mexico will obtain. Several participants suggested that the FTA could also provide the vehicle for "equalizing" the investment prospects of the Caribbean countries vis-a-vis Mexico. Three proposals were offered: first, that Mexico be required to open up its market to Caribbean products on a tariff-free basis or on the same basis under which these goods can enter the United States; second, that the rules of origin in any United States-Mexican agreement permit Caribbean goods to be treated as if they originated in Mexico; and third, that Mexico permit Caribbean countries to transship their goods freely through Mexico, without administrative hindrances.

Other participants were optimistic regarding the impact of an FTA on the CBI countries. A U.S. official envisaged that Mexican ventures would proliferate in the Caribbean in the long-term once benefits from a United States-Mexican FTA strengthened Mexican entrepreneurs, enabling them to broaden their search for new investment locations.

Several participants remarked that the Caribbean has its "niches" of comparative advantage for small-scale specialized production areas. Caribbean wage rates are presently somewhat higher than Mexican ones, but, as one U.S. official commented, this could change if a United States-Mexican FTA results in higher Mexican wages.[99] Another participant remarked that, owing to some cultural similarities, Mexico could become a leader of the Caribbean region's economic development, more so than the United States or Canada could hope to be. Another said that in recent years, geographic proximity to the United States has attracted some Far Eastern producers to the Caribbean. He echoed the views of others, however, when he noted that if a United States-Mexican FTA is implemented, most Caribbean countries would not be able to compete with Mexico for foreign investment given Mexico's even greater accessibility and additional advantage of lower wage rates. Yet several Caribbean

[96] The Caribbean Basin is defined as including 28 Caribbean and Central American countries and territories.

[97] The Caribbean Basin Initiative was launched in 1983 as a broad program of the United States to promote economic development through private sector initiative in Central America and the Caribbean islands. An important element of the CBI is the Caribbean Basin Economic Recovery Act (CBERA), enacted on Aug. 5, 1983. The CBERA grants duty-free treatment to eligible imports from designated Caribbean countries.

[98] The following major product categories are not eligible for duty-free treatment under the CBERA: petroleum and petroleum products, textiles and apparel (although some other concessionary treatment is available), certain handbags, luggage and flatgoods, footwear, work gloves, certain leather apparel, and tuna.

[99] There were several participants who thought that average Caribbean wage rates were lower than Mexican ones.

officials expressed confidence that a United States-Mexican FTA would not hurt Caribbean tourism. Tourism was singled out by many participants as the best prospect for the Caribbean. One participant from the region said that "the Caribbean ought to be turned into a tourist mecca and the pretense that the area is [otherwise] productive should be stopped."

Latin America and a Hemispheric FTA

Certain participants predicted that United States-Mexican FTA negotiations would be followed by similar negotiations with the Caribbean and Central American countries. They predicted that by the year 2,000, an economic integration of the Western hemisphere will have taken place.[100] One U.S. Government official noted that the prospect of a Western Hemispheric Common Market intrigues quite a few Latin American leaders and analysts. However, several U.S. and Mexican Government officials and businessmen asserted that in the Western Hemisphere, Mexico alone is now in a position to negotiate an FTA with the United States.

Several businessmen and trade analysts pointed out that there is a great difference between Mexico and Latin American countries in their determination to resolve economic problems. They noted that whereas Mexico instituted a powerful economic reform program that broke a decades-old tradition of economic isolation from the world economy, most other Latin American countries have shown little interest in economic liberalization. Their resistance to economic reforms was cited as one reason why other Latin American countries are poor candidates for regional economic integration. Other participants acknowledged, however, that some Latin American countries have now instituted some Mexico-like economic reforms.

A number of participants stated that officials and businessmen in Latin American countries have mixed feelings about the evolving United States-Mexican economic ties. While recognizing the potential benefits of increased Mexican economic activity on other Latin American countries, these participants also feared that trade diversion could occur if Mexico forges closer ties with the United States. Orange juice, auto parts, and sugar were cited by participants as examples of Latin American commodities that might be particularly vulnerable to trade diversion. One participant mentioned that Brazilian steel could also be hurt. Brazil and Andean Pact countries—especially Columbia and Peru—were cited by several participants as those Latin American nations that might be particularly adversely affected.[101] One U.S. Government official said that a U.S.-Mexican FTA, by diverting trade from other Latin American countries, might conflict with the current U.S. policy of discouraging farmers in Andean countries from growing coca and other illicit crops to growing legal crops.

Japan and Other East Asian Countries

Many participants shared the view that a United States-Mexican FTA could lead to a diversion of U.S. imports from Japan and other East Asian countries. They agreed that because of Mexico's geographic proximity and low wage rates, an FTA could divert U.S. imports from East Asian sources to Mexico. Consumer electronics, automotive products, and apparel were particularly cited as prime candidates for possible trade diversion.

Several U.S. business participants indicated that the newly industrialized economies of Asia (South Korea, Hong Kong, Singapore, and Taiwan) might also lose investors if Mexico becomes the preferred investment location after an FTA is concluded. One individual noted that the U.S. consumer will benefit from the FTA bringing certain operations closer to home. Another participant pictured "the prospect of 20 or 30 Hong Kongs on our Southern border" claiming that "...we have got a giant down there" and that "...Mexico could be a very effective competitor."[102]

A number of participants expected Japanese (and possibly other East Asian) investors to reduce trade diversion from their countries by locating production facilities targeted for the U.S. market directly in Mexico. A U.S. consultant in Mexico City said that some European countries might also "use Mexico as a springboard to the U.S. market." One representative of a Japanese-owned company noted that if Mexico is able to obtain an FTA with the United States, it would be reassuring to third-country investors who might otherwise be fearful of Mexican political or social instability. Regarding Japanese investments in Mexico, this participant added that "... when a major Japanese investor does decide to move into Mexico, he does it in a big way, bringing along its suppliers as well."

Most participants in the United States agreed that third-country "backdoor" penetration into the U.S. market through Mexico must be con-

[100] On June 27, 1990, President Bush proposed a new partnership to encourage growth in the Americas. The program, called "New Enterprise for the Americas Initiative" includes a U.S. offer to negotiate free trade agreements with Latin American and Caribbean countries with the eventual goal of a "free trade zone . . . from Anchorage to Tierra del Fuego." In addition to trade, the plan would address investment, debt, and strengthen environmental policy in the hemisphere. The United States would forgive Latin American debt under U.S. aid programs for countries that have adopted strong economic reforms and have refinanced their commercial bank debts.

[101] The Andean Pact nations are Brazil, Colombia, Peru, Bolivia, Chile, and Ecuador.

[102] Testimony of Pete P. Pranis, McAllen hearing, tr., p. 218.

trolled via rules of origin. However, many pointed to the considerable difficulties involved in establishing and policing such rules. One trade analyst suggested that United States-Mexican FTA rules of origin should be modeled after those of the European Community and should be based on the content of products by country of origin.

Several businessmen commented that Japan's interest in Mexico has noticeably heightened in anticipation of an FTA. As one participant said, the Japanese want to be "inside the wall in case such a wall will be erected." Other participants said that Japan had been involved in the Mexican maquiladora industry well before an FTA was officially contemplated. These participants expect the maquiladora industry to continue as a major conduit of third-country interest in Mexico.[103] One businessman pointed out that Japan will likely target Mexican locations especially for production of bulky items for the U.S. market in its quest to reduce transportation costs.

However, a number of participants disagreed that a United States-Mexico FTA would trigger heavy investment flows to Mexico from Asian countries. In terms of Japanese investments, some U.S. producers and business association representatives in Mexico were doubtful that an FTA will make much of a difference. Doubt was also expressed by a Washington-based private consultant who said that "the first wave of Japanese investment in Mexico might already be over." One Mexican businessman noted that culturally, "the Japanese and Mexicans have nothing in common and doing business together will not be easy—certainly much more difficult than with many other countries."

A U.S. businessman thought that in making their decisions on whether to locate in Mexico or not, corporations might view the advantage of inexpensive labor as outweighed by political uncertainties, cultural disadvantages, and infrastructure problems in Mexico. In addition, this respondent said that Japanese and other foreign investors now have a wide choice among several destinations for their ventures, including the Soviet Union and Eastern Europe. For some, he speculated, Mexico will remain a low-priority capital market.

Implications for the Multilateral Trading System

A number of participants expressed support for the multilateral trading system and optimism that the Uruguay Round, as the best current vehicle for trade liberalization, will conclude successfully. The majority of participants, in noting that Presidents Bush and Salinas have pledged that the Uruguay Round remains their first priority, did not believe that United States-Mexican FTA negotiations would frustrate or detract from the Round.[104] A number of U.S. Government officials felt that FTA negotiations with Mexico should not begin until after the Uruguay Round is concluded, in order for both countries to devote their full resources to each of the endeavors. Many U.S. businesspeople supported this notion, stating that the results of the Uruguay Round could eliminate some trade problems, could serve as a reference point, and, generally, could ease the FTA negotiations.

Many participants, representing a broad spectrum of views, noted that, because of geopolitical factors, the United States and Mexico enjoy a unique relationship. They said that this situation should not be addressed multilaterally but rather bilaterally. Other participants said that a United States-Mexican FTA could actually help the multilateral system. Some participants who supported this view suggested that an FTA could symbolize a developing country moving even closer to GATT-style liberalization. Others viewed an FTA as another step towards global liberalization.

Conversely, one high level U.S. negotiator said that the only disadvantage he envisioned to a United States-Mexican FTA was the negative impact bilateral negotiations could have on the GATT. Some other political analysts opined that USTR Carla Hills' effectiveness as a multilateral negotiator could be diminished by ongoing bilateral negotiations. A few participants felt that an FTA would "certainly affect the GATT, the very fact that we are talking about an agreement is a powerful signal." Others believed that an FTA could also jeopardize the "high stakes" issues (farm reform, protection of intellectual property rights, and liberalized services) on the table at the Uruguay Round. Proponents of this view considered bilateral agreements as "second best," and thought that the United States should first try to achieve its trade liberalization goals through the multilateral system. They believed that another FTA undertaken by the United States could encourage the European Community and Japan to view bilateralism as a "more attractive route to assure market access than the negotiation of multilateral accords in GATT. This outcome would contribute further to the erosion of the multilateral trading system."

Trading blocs

Increasing apprehension over the apparent proliferation of trading blocs was voiced by many U.S. Government officials and businessmen.

[103] Japanese maquilas account for some 60 of the 1,800 maquila plants currently on record in Mexico. In Tijuana, 3 of the 5 largest maquilas are Japanese-owned, led by Sanyo Electric.

[104] In June 1990, President Bush announced that he would notify Congress in September of the intent of the United States and Mexico to embark on FTA negotiations.

Many participants believed that one reason for the growth of regional trading blocs is the perception that the GATT, with 97 member countries, is too cumbersome and slow to address the needs of the world. They asserted that trading blocs will be more responsive to its individual members' needs than the GATT could be, and are but an intermediate step toward achieving multilateral free trade.

However, a majority of participants held the view that regional trading blocs do not undermine the GATT, are not inconsistent with the General Agreement, and are more efficient than the GATT in achieving trade liberalization goals. As long as the arrangements do not construct additional barriers to trade, they asserted, FTAs should not hinder the multilateral trading system. In this manner, the GATT would take on a new role as arbitrator between the emerging trading blocs and would ensure those countries not belonging to an arrangement a fair treatment.

Others perceived trading blocs, especially the European Community and emerging alliances in the Pacific Rim, as detracting from the liberalization efforts of the GATT. They believed formation of trading blocs "could bring about a very different pattern in the flow of foreign investment," for example, towards Europe and away from Latin America. At the same time, they said that countries in a trading bloc could achieve economies of scale, further diminishing the development of developing countries.[105]

[105] Written submission to the Commission by Ing. Lorenzo H. Zambrano.

Chapter 2
Summary of Views on Alternatives to the FTA Option

Sector Accords

Many participants said that, if a United States-Mexican FTA is impossible to conclude, the "next best" option to broaden bilateral trade is to pursue sector accords. They suggested that the United States and Mexico could continue to engage in sectoral negotiations pursuant to the 1987 Framework Understanding and the TIFTs negotiations. As a leading U.S. academician stated, "if an FTA is not possible politically, then continued use of the sectoral approach is necessary as the safest way to get to free trade in the end." Another cautioned, however, that "[sector accords] are certainly a fall back position because the sectoral agreement process is messy and time consuming."

A number of participants, particularly Mexican businessmen and trade analysts, supported the notion of the United States and Mexico negotiating a series of sector accords to lead gradually to a comprehensive FTA. Several indicated that this method of achieving an FTA was preferable as it would allow Mexico's developing industries to adapt more easily to the adjustments imposed by trade liberalization. Some labor representatives also preferred sectoral negotiations because they believed they are easier to manage than a comprehensive FTA, thus affording more opportunities to protect workers who could be displaced as a result of increased competition.

However, the majority of participants did not favor the sectoral approach either as an alternative to a United States-Mexican FTA, or as a method of achieving broader trade objectives. They said that sectoral accords might be easier to negotiate than an FTA, but have the disadvantage of being too narrowly focused, thereby making it difficult to balance benefits.

Although cognizant of the fact that, in any FTA negotiations, "sensitive" industries such as agriculture or energy would require focused discussion and possible special consideration with respect to timing, the majority of both Mexican and U.S. participants emphasized the legal and practical disadvantages of negotiating an FTA on a sector-specific basis. Indeed, to begin FTA negotiations on a sectoral basis was viewed by most business, government and academic participants on both sides of the border as problematic and characterized as "the lowest common denominator approach." Conversely, several United States and Mexican participants who objected to the sectoral approach said it is preferable only if FTA negotiations fail to achieve an agreement, and it can be used as an interim measure to sustain movement toward an FTA.

The major disadvantages associated with a sectoral negotiating approach cited by participants included the following:

Would require GATT waiver.—Mexican and United States analysts and Government officials said that, from a legal standpoint, sectoral agreements would be difficult to conclude because they require a waiver from GATT, "for exceptional circumstances"[1] not covered elsewhere in the Agreement. Tariffs are one area addressed in the General Agreement, and both Mexican and U.S. participants stated that, because GATT rules require that tariff concessions obtained in sectoral negotiations be extended to other countries with most-favored-nation status, any direct advantages to the principals granted under sectoral accords would be diluted.

Would be difficult to balance benefits.—From a practical standpoint, most participants emphasized that opening negotiations on a broad basis allows the parties to establish priorities and to balance interests. The potential for "win-win" reciprocity and thus a successful negotiating outcome, is enhanced when negotiations assume a broader focus. One U.S. Government official said that "there has to be a tradeoff of various interests" that is difficult in sector negotiations.

One trade authority offered the illustrative example of the Latin American Free Trade Area (LAFTA)[2] as a trade pact "hamstrung" by tariff reductions on an industry-by-industry basis:

> Sectoral negotiations are problematic in that finding sectors which can be combined into a balanced and reciprocal agreement between the United States and Mexico would be exceedingly difficult...[LAFTA] did not live up to expectations partly because tariff reductions were negotiated industry by industry rather than having automatic across-the-board reductions and liberal escape clause provisions allowed withdrawal of concessions previously granted.

Moreover, it was noted by a number of participants that the "selling" of an FTA could be impaired if special interest groups have an opportunity to focus solely on its concerns, i.e., the larger advantages which may accrue to a nation or a hemisphere under such a trading arrangement and the momentum for such change may be "obscured by partisan interests." One U.S. academician observed:

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[1] The "exceptional circumstances" must not be covered elsewhere in the Agreement. The member country seeking the waiver must notify the GATT to ensure that full consultations occur and the legitimate interests of the other members are safeguarded. The waiver must be approved by two-thirds majority of the votes cast, with the majority composed of more than half of the contracting parties.

[2] Now the Latin America Integration Association.

Sectoral agreements in areas most important to Mexico are likely to run into stiff political opposition in the United States. The idea of a comprehensive trade and investment agreement has the potential for catching the imagination of the American public, which could provide the momentum necessary for genuine trade liberalization. Businesses wishing to take advantage of trade and investment opportunities in Mexico could counterbalance the entrenched interests of sunset industries in the United States which are opposed to trade liberalization.[3]

Would not address the "big picture."—Several United States and Mexican participants stressed the importance of looking at the big picture. One association spokesman commented that, "Only when the entire range of issues is addressed can policies be formed with a full understanding of the linkages among them."[4] For example, reaching agreement on an agricultural accord "would be virtually impossible to negotiate without considering manufacturing (equipment), services and technical aspects." One U.S. marketing consultant stated:

The problem with this approach is that by isolating each sector and negotiating on it, there is no grasp on how each of these sectors affects and is affected by other sectors. For example, the food processing sector is going to be heavily affected by the agricultural sector. . .The same can be said for electronics and telecommunications. It is impossible to negotiate these sectors in isolation. . .the main concern is that the overall picture is not in view, thus making the negotiators susceptible to missing points applicable to more than one sector. . .It would be better to put everything on the table. A good grasp of the economies and psyches of both countries needs to be formed.[5]

Other Options

Several participants who opposed the concept of a United States-Mexico FTA and also thought sectoral accords inadvisable, suggested a variety of alternatives to freer trade that they believed would be more beneficial to both countries.

Foreign Aid option

Certain U.S. labor union representatives suggested that as an alternative to an FTA or sectoral accords, the United States should consider giving Mexico direct foreign aid. It was proposed that the United States could provide considerable direct foreign aid to assist Mexico with the development of infrastructure, modernization of its industries, and other means to create employment and increase production efficiency in Mexico. The benefits of such foreign aid, as opposed to an FTA, was described by one U.S. labor representative:

More trade is not necessarily mutually beneficial. In the case of a U.S.-Mexico FTA, the cost of an FTA in the United States would be born mostly by a narrow segment of population, i.e. the workers who lose their jobs. By contrast, direct aid to Mexico would be born by all U.S. taxpayers.

Another proposal suggested U.S. aid to Mexico in the form of debt relief. One proponent of this view, a representative of labor interests, stated:

The UAW has supported more extensive debt relief for Mexico for several years as a means to stimulate Mexican growth and demand for U.S. manufactured exports. We have called on bankers to pay their fair share of the burden created by Mexico's debt crisis. The funds made available should be used to generate jobs that pay enough to allow Mexican workers to meet their basic needs and build the foundation for further economic development.

Other participants rejected the notion of supplying aid and debt relief to Mexico as an alternative to an FTA. A former administrator for the U.S. Agency for International Development stated that the extensive needs of the Mexican economy cannot be met by foreign aid:

No amount of foreign aid, alone, could make a dent on the intractable poverty I have seen first hand in Latin America . . . Only by providing a framework of incentives could we mobilize the resources, creativity, and competitive forces of the private sector to meet the development challenge. For me, that would require "free trade," first with Mexico, and then the rest of the Americas.[6]

A California State legislator also rejected the idea of foreign aid instead of an FTA. He wrote:

While there are other remedies, trade is the only short-term alternative that offers hope to people in a region characterized by a broad spectrum of economic growth. Financial assistance, even if it were available in the amounts needed, would not be nearly as effective. Moreover, expanded trade with

[3] Written submission of Joseph McKinney, Baylor University, to the Commission, p. 5.
[4] Business Roundtable, op. cit., p. 10.
[5] Submission of P.A. Jacobs, op. cit., p. 11.

[6] Abelardo L. Valdez, "U.S. free trade with Mexico and Latin America: It's about time," *Denver Post*, Jul. 28, 1990, pp. 9-10.

> hemispheric nations should produce more jobs and greater prosperity in the United States.[7]

U.S. government and industry sources indicated that, in their view, the present condition of major U.S. banks and the U.S. Government deficit does not provide conditions for debt relief to Mexico beyond the recent adjustments made pursuant to the Brady plan.

Several other alternative proposals to an FTA or sectoral accords were made. One would reject an FTA approach in favor of a bilateral trade agreement on an MFN basis. This proposal was explained by one U.S. trade expert:

> Because of the disparities between the two countries, a U.S.-Mexico FTA is inappropriate and inadvisable. The only known alternative way of facilitating two-way trade with Mexico is to negotiate a bilateral trade agreement under the MFN principle—thus only on the products of which each is the principal MFN supplier (not counting GSP duty-free imports) to the other. Among the advantages of [this type of] bilateral trade agreement over an FTA are that it would be a smaller undertaking, involving only the products of which each is the principal MFN supplier. Duty-free trade need not and should not be the objective.[8]

Another proposal would provide for the United States to provide Mexico with "some sort of enhanced GSP." Yet another would seek to modify GATT rules to allow the extension of preferential tariff and non-tariff barrier treatment to bordering countries, particularly if those bordering countries are developing nations.

Sector Digests

The following sector digests present background trade information and a summary of participants' views regarding the effects of liberalized trade on certain important sectors in United States-Mexican bilateral trade.

Agriculture

The agricultural trade relationship between the United States and Mexico is longstanding, substantial, and often controversial. Mexico is the second leading foreign supplier of agricultural products to the U.S. market (after Canada) and is the third leading U.S. agricultural export market (after Japan and the Soviet Union). In 1989, the total value of agricultural[9] trade between the United States and Mexico was approximately $5.4 billion. The United States suffered an agricultural trade deficit of $119 million with Mexico that year.

Barriers to U.S.-Mexico trade

The major U.S. trade barriers facing Mexican agricultural products include tariffs, quantitative restrictions, marketing orders, and health and sanitary requirements. The principal Mexican trade barriers affecting U.S. agricultural products include import licensing requirements, tariffs, and health and sanitary requirements. In addition, other factors not specific to agriculture affect bilateral access to each other's market.

U.S. import duties on agricultural products are relatively low, particularly compared with Mexican duties on similar products. However, U.S. duties are high on certain products. The most sensitive agricultural sector with regard to U.S. import duties affecting Mexico is fruits and vegetables. The United States maintains high seasonal tariffs that are designed to limit imports from Mexico during the main marketing period for U.S. produce, namely the summer months.

The United States maintains quantitative restrictions on various agricultural imports. Such restrictions apply to meat and dairy products, sugar and sugar-containing articles, peanuts, and cotton. Although the effect of these restrictions on Mexico has not been substantial to the present, these restrictions may limit future expansion by Mexico in certain agricultural sectors.

The United States maintains marketing orders for various agricultural products under the authority of the Agricultural Marketing Agreement Act of 1937 (7 U.S.C. 608e-1). These orders address marketing problems[10] that generally affect all producers of a particular commodity, such as product quality, supply fluctuations, and market promotion. Marketing orders are currently in effect for various fruits and vegetables, including (but not limited to) tomatoes, onions, avocadoes, grapefruit, oranges, olives, and table grapes. In addition, there are proposals to introduce marketing orders for several other products, such as papayas and cucumbers. These orders apply equally to domestic products and imports. Mexican horticultural interests consider U.S. marketing orders to be a significant obstacle to Mexican exports of horticultural products.[11]

Health and sanitary requirements are maintained by the United States on animal and plant products. These requirements apply to domestic and imported products and are intended to pro-

[7] Art Torres, "A way to cut undocumented immigration—but it's not a quick cure," *Los Angeles Times*, Jul. 29, 1990, p. 14.
[8] Written submission of Leonard K. Lobred, International Trade Consultant, to the Commission, p. 7.
[9] Agriculture is defined to include fisheries and forest products.

[10] Marketing orders generally set grade, quality, and size standards.
[11] *U.S.-Mexico Trade, Trends and Impediments in Agricultural Trade*, U.S. General Accounting Office, Report GAO/NSIAD-90-85BR, January 1990, p. 12.

tect animals and plants from disease and pests as well as to guarantee a safe and wholesome U.S. food supply. In general, most Mexican agricultural exports to the United States meet these requirements. However, certain products do not, the most prominent of which are orchard crops, such as citrus fruits and avocadoes, as well as live animals. A major issue that affects Mexican access to the U.S. market and has yet to be resolved in the United States is pesticide residues in food products.

Mexican trade barriers that affect U.S. agricultural exports include import licensing requirements, tariffs, and health and sanitary requirements. These barriers have been substantially lowered since Mexico's accession to the GATT in 1987. However, the remaining barriers significantly restrict U.S. exports of many agricultural items. In addition, many other barriers exist that are not specific to agriculture.

The major agricultural trade barrier in Mexico is the import licensing system. This system acts as a set of quotas, as the government has discretionary control of individual shipments and, ultimately, overall import levels. Since joining the GATT, Mexico has dropped import licensing requirements on many agricultural items. However, such requirements still exist on about 60 agricultural trade items that are major U.S. exports, including grains and oilseeds.

Mexican tariffs have been substantially reduced in the recent years since Mexico joined the GATT. However, such tariffs are still relatively high compared with U.S. tariffs. The maximum tariff rate is 20 percent ad valorem, and the tariff rate recently has been increased for some items.

Health and sanitary requirements maintained by Mexico are similar to those maintained by the United States. In general, U.S. exports are able to meet Mexican requirements without much trouble. However, unexpected changes in the requirements and lengthy administrative procedures affect U.S. agricultural exports.

In addition to the above barriers, other impediments affect agricultural trade between the United States and Mexico. These include inadequate infrastructure, lengthy and unpredictable administrative procedures, lack of market knowledge, and limited financing availability.

Bilateral Trade, 1989

The following tabulation shows U.S. agricultural imports from and exports to Mexico, by major items, in 1989 (in millions of dollars, data from the Census Bureau):

Imports *HTS heading*	*Value*
Coffee (0901)	500
Crustaceans (0306)	298
Live bovine animals (0102)	284
Tomatoes, fresh (0702)	222
Vegetables, fresh (0709)	167
Beer (2203)	144
Melons and papayas, fresh (0807)	93
Frozen vegetables (0710)	90
All other	948
Total	2,746

Exports *Schedule B heading*	*Value*
Corn (1005)	449
Grain sorghum (1007)	320
Soybeans (1201)	309
Milk and cream, concentrated or sweetened (0402)	140
Live bovine animals (0102)	72
Fats (1502)	69
Dried legumes, shelled (0713)	69
Edible offal (0206)	66
All other	1,134
Total	2,628

As shown above, the major U.S. agricultural export items to Mexico consist mainly of coarse grains and oilseeds, while major U.S. agricultural imports from Mexico comprise a wider variety of products (coffee, shrimp, cattle, fruits and vegetables, and beer). Agricultural frictions between the two countries have occurred primarily in the sectors for which trade is large.

Summary of views

Generally, the participants who commented on the advantages and disadvantages of an FTA or sector accord for agriculture stated that any negotiations between the United States and Mexico should proceed with caution. Most U.S. interests believed that an FTA would be preferable to a sectoral accord in agriculture. However, several special interest groups, particularly those in the fruit and vegetable sector, were adamant in their opposition to an FTA. An FTA was generally perceived to be preferable to a sector approach. Advantages to a sectoral approach cited by those interviewed during this study were not nearly as numerous as those associated with an FTA. One observer said that a sectoral approach generally is easier to negotiate and manage, and the interests of specific groups are better protected. Another view was that a sectoral approach could be used to "test the waters" in sensitive areas, such as agriculture, before a full-fledged FTA is negotiated. Many participants said that liberalization of the agricultural sector would be difficult under any circumstances. As one U.S. economist said:

Liberalization of the agricultural sector may be particularly difficult, as it has proven to be in the Uruguay Round. Because of the problems involved, agricultural trade was not fully liberalized in the U.S.-Canadian FTA. For the same reasons, complete liberalization of agricultural trade between the U.S. and Mexico may well not be feasible in the short run. However, agriculture should be a part of the negotiations and pushed to the limit of what is politically feasible since some progress in this area should be possible.[12]

Advantages of FTA/sector accord for the agricultural sector

Would improve Mexican economy and increase demand for U.S. products

A widely held perception was that an FTA would generally help improve the health of the Mexican economy, which would in turn lead to an increase in demand for U.S. products, including agricultural items. Many participants felt that bilateral United States-Mexican agricultural trade was complementary and that each side could specialize in areas for which they hold a competitive advantage (such as fruits and vegetables in Mexico and grains in the United States). This was referred to as "compatible trade," which would result in job shifts, not job losses.[13] Other observers said that an FTA could lead to an increase in U.S. investment in the Mexican agricultural sector.

This would benefit Mexico by increasing productivity; the United States would benefit both in terms of lower labor costs to U.S. agricultural processors and lower prices to U.S. consumers. A related perception was that an FTA would accelerate much needed reforms in the Mexican agricultural sector.[14] One observer stated that an FTA would provide greater access to Mexican markets for U.S. agricultural products, particularly in the interior. Other observers said that many economic sectors are intertwined and an FTA is the best way to address cross-sectoral issues such as agriculture and machinery and agriculture and transportation.

Disadvantages of FTA/sector accord for the agricultural sector

A sectoral approach was favored by groups in the United States and Mexico who believed they would be negatively affected by an FTA. These groups categorically opposed an FTA and cited several perceived disadvantages.

Representatives of U.S. associations representing citrus, tomato, asparagus, cauliflower, and other vegetable, fruit and nut growers and processors are adamently opposed to an FTA that would include reductions in agricultural tariffs. They assert that Mexico already has a cost advatnage because Mexican growers and processors have lower labor costs, are not burdened by environmental regulations, or worker safety and protection laws faced by U.S. growers and processors. The majority of these representatives said that U.S. agricultural jobs will be lost, particularly in labor-intensive sectors, such as fruit and vegetable farming and processing, if U.S. tariffs are reduced below current levels. According to one participant:

> Florida workers can earn more in one hour than Mexican workers do in an entire day. In addition, Mexican producers are not saddled with other labor benefits such as high Minimum Wage laws, Social Security, Workers' Compensation, unemployment insurance, and in many cases, health insurance. Additionally, there is considerable cost of compliance to U.S. producers caused by the Migrant & Seasonal Farm Worker Protection Act, Housing and Field Sanitary regulations, the Occupations Safety & Health Act, Child Labor laws, the 1986 Immigration Reform and Control Act, Motor Carrier Safety laws, the Hazardous Communication Act, and various state and federal discrimination and Human Rights Acts.[15]

One participant stated that the agriculture sector would not gain unless investment and capital flows were included in trade negotiations with Mexico. Another view was that under a sectoral approach, sectors with the most economic and political clout would likely gain an advantage at the expense of sectors that may be more sensitive but less powerful.

On the Mexican side, a prevailing view was that an FTA would unfairly aid the U.S. grain sector, which benefits from government subsidies, at the expense of the politically sensitive Mexican grain sector, which comprises smaller, less efficient farmers. In a more general sense, one participant held that a comprehensive FTA would be more difficult to negotiate relative to sectoral agreements and that the economic and political commitment would be greater. Also, temporary dislocation and adjustment effects were thought to be more widespread and severe with an FTA than with sector accords. Several participants opined that an FTA would lead to a change in the ejido system, which would force a shift of population to urban areas and exacerbate the problem of urban poverty in Mexico. Another opinion was that an FTA would further tilt the "playing field" in favor of Mexico, which already has an

[12] Submission of Joseph A. McKinney, Baylor University, to the Commission, p. 4.

[13] Statement by Representative Kika dela Garza, McAllen hearing, Jul. 16, 1990.

[14] For a description of the Mexican "ejido" system, see section on "Disadvantages of an FTA," in ch. 1.

[15] Written Statement of Frank Bouis, President, The Florida Fruit and Vegetable Association, before the Subcommittee on Trade, House Committee on Ways and Means, June 28, 1990, p. 2.

advantage over the United States in terms of wages and less stringent environmental regulations, health and sanitary requirements, and worker safety regulations.

Computers, Telecommunications Equipment, and Electronics

The computer, electronic, and telecommunications sectors are important components of future U.S.-Mexico bilateral trade. United States and Mexican participants reported that it is essential for Mexico to liberalize trade further in these sectors in order to encourage the investment necessary to modernize its industry and infrastructure so that Mexico can become more competitive in world markets. Many U.S. industry representatives anticipate significant benefits to U.S. producers, distributors, and workers in these sectors from future sales and service to the Mexican and Latin American markets. Each sector is discussed separately below.

Computer equipment, software, and services

The computer equipment sector falls into three basic product groups: "low-end" personal computers, mid-size business computers, and large "main frame" computers. There are 17 computer manufacturers in Mexico that mainly produce personal computers. Total sales of these manufacturers were $600 million in 1989.[16]

Bilateral trade, 1989

The following tabulation shows U.S. computer and peripheral imports from and exports to Mexico, by major items, in 1989 (in millions of dollars, data from Bureau of Census):

Imports HTS heading	*Value*
Parts of computers and peripherals (8473.30)	277
Digital processing units (8471.91)	196
Input or output devices (8471.92)	103
Storage units (8471.93)	28
Other computers and peripherals (8471.10, 8471.20, & 8471.99)	135
Total	740

[16] The percentages of each of the three categories in the Mexican market for 1990 are as follows: 60 percent in small, personal computers, 25 percent for mid-size business computers, and 15 percent for main frame computers.

Exports Schedule B heading	*Value*
Parts of computers and peripherals (8473.30)	360
Digital processing units (8471.91)	59
Input or output devices (8471.92)	59
Storage units (8471.93)	43
Digital computers (8471.20)	23
Other computers and peripherals (8471.10 & 8471.99)	19
Total	563

U.S. imports of computers and peripherals from Mexico totaled $740 million in 1989, accounting for more than 3 percent of total U.S. imports of computers and peripherals. U.S. exports of computer equipment to Mexico totaled $563 million in 1989, or less than 3 percent of total U.S. exports of computers and peripherals. The majority of Mexican computer equipment imported by the United States in 1989 came from maquiladora operations. However, a private study coordinated by the Commerce Department indicates that exports of computer equipment from Mexican-owned companies are forecast to grow rapidly, reaching $400 million by 1993.

The production of computer software has grown rapidly in both Mexico and the United States. U.S. industry revenue has increased dramatically to just over $24 billion worldwide in 1989. Most U.S. software sales are "packaged software" sold in connection with sales of computer hardware, as opposed to "custom software."[17] Mexican software exports totaled $5 million in 1987 and are projected to grow at an average rate of 30 percent through 1993. U.S. software exports to Mexico in 1987 totaled $7.1 million, or 70 percent of the Mexican software market. However, some U.S. software producers indicated that their sales in Mexico have been dampened because of piracy problems.

Computer services include data processing, electronic databases, computer leasing and rental, computer maintenance and repair, facilities maintenance, and computer consulting. While there are no adequate statistics on the trade in such services, U.S. computer representatives indicate that present Mexican restrictions on employment of U.S. workers in Mexico and on computer leasing and rental for equipment not manufactured in Mexico has severely restricted trade in such services.

Barriers to U.S.-Mexico trade

Some U.S. participants stated that Mexican Government regulation of the computer industry has restricted the ability of U.S. companies to sell their products in Mexico. Between 1981 and 1990, Mexico regulated both trade and

[17] Similarly, Mexican software sales have increased. Nine primary equipment firms are responsible for 66 percent of the software sold in Mexico.

investment in the computer sector through a series of "Computer Decrees," which required foreign firms wishing to export to Mexico to register with the government and negotiate levels of and conditions on local purchasing, employment, research and development, domestic, sales and exports.[18] Pursuant to these decrees, U.S. firms such as IBM, Hewlett-Packard, and Data General established manufacturing and R&D facilities in Mexico, purchased Mexican components, and employed and trained Mexican nationals. In addition, a number of smaller Mexican companies began production of personal computers and computer components.

In April 1990, Mexico revised its Computer Decree and eliminated import permit requirements on all computer products. However, the Mexican tariff on imports of finished computer products was raised to 20 percent. The tariffs on most imports of computer parts and components were left at 10 percent, While tariffs on scarce inputs were reduced to 5 percent. For those companies operating in Mexico, the new regulations provide for tariff reductions over a three year period. The amount of reductions depend on a company's level of production, local content, and R&D in Mexico. U.S. participants operating in Mexico supported Mexico's phase-out of tariffs, but emphasized that an FTA which immediately eliminated all tariffs would make it more difficult to compete against new competition; they insisted that they have high costs imposed on them by the Computer Decree that would not be borne by new competitors.

Additional Mexican restrictions on the import of computer equipment include a prohibition on the import of used equipment. There are also restrictions on the employment of U.S. computer service personnel providing computer maintenance, repair, and consulting services.

U.S. impediments to Mexican imports include tariffs on computer equipment ranging from 0 to 4.9 percent, although most dutiable items face a 3.9 percent tariff.

Advantages of an FTA to the U.S. industry

Representatives of the U.S. computer industry presently operating in Mexico are strongly supportive of an FTA that would provide some phase-in of tariff reductions to prevent dislocation of their Mexican operations. These representatives said that an FTA will greatly expand the Mexican market for all types of computers. They also indicated that an FTA will increase competition among United States, Mexican, and Far Eastern manufacturers, and anticipate that competition will increase product awareness and use, and will eventually lead to long-term increases in computer sales for all computer manufacturers. Officials of U.S. companies manufacturing personal computers, mini-computers, and main frame computers indicated that an FTA would not have an immediate impact on their operations except to improve their competitiveness by eliminating Mexico's local content and procurement requirements. Representatives of U.S. computer representatives also indicated that an FTA might create new U.S. jobs by increasing U.S. exports of computers to Mexico.

Representatives of U.S. software producers also support an FTA, stating that their sales would increase commensurate with anticipated increases in computer equipment sales. Moreover, they stressed that if an FTA provided for the creation of explicit protection for software under Mexican copyright law, their ability to enforce their rights in Mexico would also increase their sales. An attorney for a major U.S. software producer indicated that "piracy of software is a major problem costing our company millions of dollars annually." Finally, several participants indicated that an FTA could provide significant opportunities for U.S. computer services personnel to work in Mexico, providing computer consulting, repair, maintenance, data processing, computer leasing and rental, and electronic database services.

Advantages of an FTA to Mexican industry

Mexican and U.S. participants indicated that increased access to lower-cost, more powerful computer equipment will significantly enhance the ability of Mexican-owned companies to compete internationally. Some participants suggested that Mexican jobs could be created by increased sales of computer equipment, components, and software, as well as by increased need for computer equipment repair and software development. U.S. computer companies operating in Mexico indicated that they intend to remain in Mexico and expand their operations to meet increased demand in the Mexican and Latin American markets.

Disadvantages of an FTA

One disadvantage of an FTA identified by participants was the possibility that some small Mexican-owned computer equipment and software companies would not be able to compete if tariffs and non-tariff barriers were eliminated. In particular, some participants mentioned that it might be difficult for Mexican companies acting alone to obtain low-cost financing to compete with well-financed U.S. companies. However, a few U.S. computer participants indicated that they did not believe that Mexican equipment companies would be harmed because they have developed particular niches in the Mexican market. Other participants suggested that the elimination of Mexican local content require-

[18] The 1981, 1987, and 1990 Computer Decrees are discussed in the Phase I report, pp. 4-7 to 4-8.

ments could force some high-cost Mexican computer component suppliers out of business. No disadvantages from an FTA to the U.S. computer equipment, software, or services sectors were expressed by any of the participants.

Telecommunications Equipment and Service

Several Mexican and U.S. participants stated that it is essential for Mexico's industrial development to establish modern telecommunications. These participants stated that the willingness of foreign investors to move into Mexico may well depend on the availability of high-speed, reliable, and cost-efficient telecommunications equipment. Such equipment falls into two broad categories: "low-technology," less costly, primarily personal telecommunications equipment, such as corded and cordless telephones and answering machines; and the more costly and sophisticated products, such as communications satellites, test equipment, mobile radio communication equipment, switching equipment, and cable and satellite television transmission equipment.

A number of participants stated that the United States is no longer competitive in low-technology equipment, whereas Mexico is competitive in producing such equipment, and many foreign companies already manufacture customer premises equipment in Mexico for export to the United States and elsewhere. The United States is a competitive producer of costly and sophisticated telecommunications products.[19] Mexico manufactures sophisticated equipment through joint ventures between Mexican companies and two foreign suppliers.[20] However, U.S. participants stated that Mexican-produced high-end network equipment is not competitive on the world market, noting that Mexico supplies less than 1 percent of the U.S. telecommunications market, mostly in parts.

Bilateral trade, 1989

The following tabulation shows U.S. telecommunications[21] imports from and exports to Mexico, by major items, in 1989 (in millions of dollars, data from Bureau of Census):

Imports HTS heading	Value
Parts not elsewhere classified (8529 pt.)	43
Telephonic apparatus not elsewhere classified (8517 pt.)	15
Other telecommunications equipment	70
Total	128

Exports Schedule B heading	Value
Parts not elsewhere classified (8529 pt.)	275
Radio communications reception apparatus (8527 pt.)	80
Other telecommunications equipment	189
Total	544

The United States imported $128 million of telecommunications equipment from Mexico in 1989, accounting for 2 percent of total U.S. imports of telecommunications equipment. Most of these imports were of low-technology equipment. Mexico was the tenth largest supplier of telecommunications equipment to the United States in 1989. Exports to Mexico accounted for 11 percent of U.S. exports of telecommunications equipment in 1989. In that year, Mexico was second only to the United Kingdom as the largest market for U.S. exports.

United States exports of telecommunications equipment and parts held a 60 percent share ($78 million) of the Mexican import market in 1988 which amounted to $130 million for that year.[22] The total Mexican telecommunications equipment market was estimated at $500 million in 1988.

Barriers to U.S.-Mexico trade

A number of U.S. telecommunications representatives stated that an important barrier to U.S. telecommunications trade in Mexico are the two state-owned monopolies that control telecommunications services in Mexico: Telefonos de Mexico (Telmex), which controls the public switched telecommunications network, and Telecomunicaciones de Mexico (Telecomm) which operates and manages the Mexican Government-owned satellite and microwave systems.[23] United States industry representatives stated that Telmex and Telecomm procurement preferences for local assembly practices restrict access to certain limited non-U.S. foreign suppliers and favor Mexican suppliers. In addition, the average Mexican tariff for telecommunications equipment in 1989 was 20 percent. U.S. industry representatives also asserted that the Mexican Government has established non-tariff barriers such as the failure to accept test data

[19] Exceptions are product areas in which foreign manufacturers control most of the patents, such as facsimile machines and answering machines, which are predominately manufactured abroad.

[20] These foreign suppliers are L.M. Ericsson of Sweden, and Alcatel of France, both of which have domestic manufacturing operations in Mexico.

[21] As defined in the Omnibus Trade Act of 1988.

[22] Source: Mexico Secretariat of Finance and Public Credit. (These figures do not include shipments of parts and components to Mexico for assembly and re-export.)

[23] The Mexican Government is in the process of attempting to privatize Telmex. Prior to the 1989 Mexican executive regulations liberalizing foreign investment, foreign participation in telecommunications services was prohibited. Such services include telephone services and other communications services such as cable TV and cellular phone systems. As a result of the 1989 regulations, foreign participation in services is now permitted up to 49 percent. Recently, several U.S. cellular network companies, in joint ventures with Mexican companies, won a number of concessions for cellular systems throughout Mexico.

generated for telecommunications equipment outside of Mexico, and mandating higher acceptance standards for telecommunications equipment than those required in the United States.

Participants reported no known U.S. non-tariff barriers to the import of telecommunications equipment from Mexico. Mexican-produced customer premises equipment must receive FCC certification that it will not harm the U.S. telephone network. Certification is required for all equipment connected to the U.S. telephone system, whether produced domestically or imported. The average U.S. tariff for telecommunications equipment in 1989 was 5 percent, with a range between 0 to 8.5 percent.

Advantages of an FTA to U.S. industry

A few participants representing the U.S. telecommunications industry stated that an FTA that eliminates Mexican tariffs as well as non-tariff barriers would spur U.S. export sales of high-level, sophisticated telecommunications equipment to Mexico. Elimination of the tariffs, these participants stated, would provide U.S. producers of high-end sophisticated equipment with a cost advantage relative to other foreign producers. One U.S. industry analyst estimated that "an FTA would increase the Mexican telecommunications market to approximately $2 billion (from $500 million in 1988) within several years of an FTA." Another major U.S. telecommunications firm described the advantages of an FTA as follows:

> We believe a comprehensive FTA agreement would open markets reciprocally for both the United States and Mexico, permitting [telecommunications] manufacturers and service providers in both countries to increase their competitiveness and economies of scale.[24]

In addition, some participants suggested that the existing Mexican telephone network has been neglected over the past decade by Telmex and Telecomm and will require significant and costly upgrades to meet Mexico's future communications needs. These participants indicated that elimination of tariff and non-tariff barriers will provide U.S. firms the opportunity to provide the required massive technical upgrades as well as the skilled services to install and maintain the equipment. Several participants stated that the eventual privatization of Telmex will provide significant opportunities for U.S. companies to engage in a legitimate bidding process. They stated that administrative irregularities in the past have favored the present non-U.S. foreign providers of telecommunications equipment.

[24] Written Submission of Noe Kenig, Vice President and Director, Latin American Operations, Motorola Inc., to the Commission, p. 4.

Several U.S. industry participants indicated that U.S. producers of less sophisticated equipment such as key systems may be able to lower their costs and increase sales by moving some of their operations to Mexico. In addition, a few participants stated that current Far East production of less-sophisticated telephone equipment by U.S. (AT&T) and Far Eastern companies may be shifted to Mexico, particularly if Far Eastern wage rates continue to surpass those of Mexico. Industry participants believe that U.S. jobs will be created as these companies purchase U.S. components and other services that were previously purchased from their Asian suppliers. Other participants, however, stated that because Far Eastern operations are efficient and capital intensive and because existing U.S. tariffs for such equipment are very low, an FTA would not make U.S. firms competitive or move low-technology telecommunications production from the Far East. Finally, a few participants stated that an FTA would create opportunities for U.S. cable television equipment manufacturers and service personnel.

Advantages of an FTA to Mexican industry

Most U.S. industry participants stated that Mexico must have access to U.S. technology in order to establish an adequate telecommunications system. One U.S. participant stated that "creating a telecommunications infrastructure is a critical component in attracting foreign investment in such areas as tourism, petroleum, computers, and manufacturing." Another U.S. industry representative stated that investment in Mexico by U.S. telecommunications equipment firms "would make Mexico an industrial competitor on a world-class basis." In addition, some participants predicted that an FTA would result in low-cost, more efficient telephone and cable television service to millions of Mexicans.

Disadvantages of an FTA

Most participants could not conceive of any disadvantages to the U.S. telecommunications equipment and services sector from an FTA. One U.S. industry analyst stated that:

> The United States telecommunications industry has a tremendous head start in research and development and has incredibly highly skilled employees which will not face competition from Mexico for a considerable time.

One U.S. participant stated that an FTA might prevent low-end telecommunications manufacturing jobs from returning from the Far East to the United States. However, most industry participants stated that such jobs were not all that possible while U.S. wages were higher than those of the Far East or Mexico.

Some participants stated that Mexican-owned telecommunications companies currently manufacturing high-end, relatively sophisticated equipment in a joint venture with foreign companies would have difficulty competing under an FTA that eliminated tariffs and discriminatory government-procurement practices. These participants stated that the Mexican companies are not now competitive with U.S. companies and would lose sales without existing Mexican protection.

Television Receivers and Parts

Although the U.S. consumer electronics manufacturing sector has been severely diminished within the past several decades by massive imports from the Far East, participants expressed the general opinion that the existing U.S. television receiver and parts sector could be affected by an FTA. However, one former U.S. Government official stated that "there is so little U.S. involvement in consumer electronics that an FTA with Mexico will have no effect on that sector or its workers."

Bilateral trade, 1989

The following tabulation shows U.S. television receiver and parts imports from and exports to Mexico, by major items, in 1989 (in millions of dollars, data from Bureau of Census):

Imports HTS heading	*Value*
Color television receivers (8528.10)	768
Parts of television receivers (8529 pt.)	560
Color picture tubes (8540.11)	6
Monochrome picture tubes (8528.12)	3
Monochrome television receivers (8540.20)	([25])
Total	1,337

Exports Schedule B heading	*Value*
Color picture tubes (8540.11)	102
Color television receivers (8528.10)	71
Monochrome television receivers (8528.20)	16
Monochrome picture tubes (8540.12)	([25])
Parts of television receivers(8529 pt.)	5
Total	194

U.S. imports of television receivers and components from Mexico were valued at $1.3 billion in 1989, compared with U.S. exports to Mexico of $194 million, representing a trade deficit of $1.1 billion.

Only one significant U.S.-owned manufacturer, Zenith Electronics Corp., remains in the television industry, representing 11 percent of the U.S. market. The Mexican television industry employs 30,000 workers at 15 maquiladora plants, including a plant owned by Zenith. There are no restrictions in Mexico for U.S. companies manufacturing and distributing televisions. The United States imposes a 5 percent duty on imports of assembled TV receivers and a 15 percent duty on imports of color TV picture tubes.

Some U.S. participants stated that an FTA with Mexico, that would eliminate the current U.S. duties, would harm U.S. industry by encouraging Japanese producers to manufacture televisions in Mexico. However, other participants stated that such a result would provide benefits to Mexico by increasing employment as Far East manufacturers shift operations to Mexico to obtain duty-free treatment.

Energy

Background

For purposes of this study, the energy sector was defined as crude petroleum and natural gas, both of which are produced in Mexico solely by the parastatal company Pemex.[26] In general, participants in both Mexico and the United States questioned whether this sector will be on the table in negotiations because of Mexican constitutional provisions restricting natural resources, including the petroleum sector, to the Mexican Government. Mexican participants were generally unequivocal in stating that changing the country's constitutional provisions would be very difficult and, therefore liberalized trade with respect to Pemex would not be subject to negotiations. Discussions with participants in Mexico City were characterized by phrases such as, "trying to open the oil sector is a non-starter," "a contentious issue," and that petroleum is one of "a special set of problems that have their origin in the revolution." Additionally, as noted by a couple of participants "there is a difference between Pemex and energy."

Several U.S. respondents noted, however, the apparent willingness of Mexico to modify the Constitution when it is in the country's perceived interest to do so citing, as example, the recent revisions with regards to banking. One oil field equipment supplier suggested that current restrictions have more to do with Mexican perceptions of national security than with a reverence for the Constitution per se.[27] Said one participant, "Items which currently are unconstitutional under Mexican law are not a problem because there have been almost 500 amendments to the 1917 Constitution."

[25] Less than $500 thousand.

[26] Uranium, nuclear and electricity were not specifically addressed in interviews. However, several Mexican participants noted that electricity sharing was a matter to be explored in FTA negotiations and one U.S. participant commented that electrical companies in Mexico "will suffer if Mexican firms can purchase electricity from low-cost U.S. producers."

[27] Testimony of Gary D. Nicholson, LTV Energy Products, on behalf of Petroleum Equipment Suppliers Association (PESA), McAllen hearing, tr., p. 68.

In addition to constitutional restrictions, U.S. academics and consultants often noted Mexico's long-standing nationalist sentiments associated with the energy industry, with one participant suggesting that "oil in Mexico is like the flag in the United States." For this reason, many U.S. interests suggested "exploration of other ways to participate in the Mexican energy sector rather than requesting liberalization of article 28 of the Mexican Constitution." Specific mechanisms suggested included joint venture, leasing, and farm-out arrangements for exploration. Mexican officials concurred, suggesting that "Pemex will always be a state entity but there are ways to subcontract many services."

Some Mexican sources noted rumors that Pemex will be reorganized into several divisions and suggested that this tentative stirring indicates that Pemex, too, is a likely candidate for liberalization in the future, but only if allowed to proceed without U.S. interference.

One Mexican non-tariff trade barrier in the energy sector which was cited in testimony before the Commission was that of government procurement practices which require parastatals to purchase equipment from domestic Mexican suppliers. U.S. equipment suppliers and U.S. Government sources suggest that despite recent elimination of the requirement, such practices continue "whenever possible."[28] Moreover, testimony at the Commission's McAllen hearing suggests that Pemex purchasing procedures are unnecessarily "lengthy and complex...which make it very difficult to establish commercial relations."[29]

Also of some concern to participants, given the U.S. position as "the leader in technology and the exploration and production of hydrocarbons around the world," is the "discouraging" record of judicial protection accorded U.S. patents and technological agreements under the Mexican legal system.[30]

Bilateral Trade, 1989

The following tabulation shows U.S. petroleum and natural gas imports from and exports to Mexico, by major items, in 1989 (in millions of dollars, data from the Census Bureau):

Imports	*Value*
Crude petroleum	4,880
Natural gas	0
Total	4,880

Exports	*Value*
Crude petroleum	0[31]
Natural gas	36
Total	36

The United States accounts for about 75 percent of total Mexican exports of crude petroleum. During the 1980-85 period, Mexico was the leading supplier of crude petroleum to the United States; since 1986, however the country has since been relegated to third place by OPEC nations. Under the terms of a long-standing agreement, the U.S. Department of Energy purchases about 50,000 barrels of Mexico's Isthmus Crude per day for storage in the U.S. Strategic Petroleum Reserve (SPR).[32] Mexico's natural gas production follows the trend of crude petroleum production since more than 80 percent of Mexico's natural gas occurs in conjunction with petroleum production. There is minimal trade in natural gas between Mexico and the United States, which occurs via pipeline transmission into Texas.[33]

Advantages of an FTA

Would create symbiotic benefits

Terms such as "collaboration," "integration," and "partnership" pepper the analysis provided by U.S. participants detailing the potential benefits that would accrue to industries of both the United States and Mexico under an FTA. Mutual advantages are predicted if an FTA is successful in opening at least a minimum of Mexico's energy-related activities to foreign participation. The potential symbiotic relationship is seen as one in which the United States could enhance its national security and which would provide an infusion of activity for depressed U.S. exploration operations;[34] Pemex stands to gain much-needed technology and capital infusions to upgrade facilities and to efficiently explore and exploit reserves, these analysts say.[35] One U.S.

[28] Department of State Country Report, 1990 and testimony of Gary D. Nicholson at the McAllen hearing.
[29] Testimony of Gary D. Nicholson, McAllen hearing, tr., p. 66.
[30] Ibid., p. 68.

[31] U.S. exports of crude petroleum are prohibited. However, there is a commercial exchange agreement, approved by the U.S. Department of Energy, between U.S. producers and Canadian refiners which allows for the exchange of crude petroleum for refined products. Also, during 1987-89, small shipments of Alaskan North Slope crude petroleum were approved for export to the Republic of Korea, Taiwan, and Australia.
[32] Currently about 45 percent of the crude petroleum stored in the SPR caverns originated in Mexico.
[33] Because natural gas is usually transported via pipeline, the United States is the only market for Mexican exports of natural gas. However, the principal source of U.S. imports of natural gas is Canada.
[34] A spokesman for the American Petroleum Institute noted that the general flow of U.S. petroleum capital has been toward overseas investment (more than 50 percent goes abroad) and therefore the potential opening of Mexico meets "with some enthusiasm."
[35] It was noted at the Tucson hearing that Pemex needs an estimated $900 million for downstream improvements in their refining capacity. Tucson hearing, tr., p. 158.

participant suggested that an FTA would enable Mexico "to become more efficient in resource-based industries such as energy."

Would increase opportunities for U.S. firms in ancillary industries

In addition to direct benefits in petroleum and natural gas production, expanded opportunities for ancillary industries in the United States are perceived to be great if liberalization of the sector is achieved during FTA negotiations. One academician attending the Commission's McAllen, Texas hearing said: "Among 10 producers identified by the U.S. embassy in Mexico City as having the best export prospects in Mexico for U.S. firms...petroleum and gas field machinery and equipment" have been identified as a potential winner.[36]

Would increase access to capital

Many Mexican industries that rely on Pemex products or their derivatives, such as petrochemicals, generally support liberalization of Mexico's energy sector under an FTA, citing a critical need for foreign capital to expand and improve efficient production capacity. Such officials are hesitant to allow complete foreign participation in Mexican operations, however, claiming that "it is not optimal to have production in foreign hands."

Disadvantages of an FTA

Would be difficult to "get Pemex on the negotiating table"

United States participants noted that if under FTA arrangements Mexico completely opened the energy sector to foreign participation, "Pemex will be affected" and would find it difficult to compete with the large, efficient U.S. industry "if the U.S. can market and develop petroleum production in Mexico." In addition, there was a general recognition of the sensitivity of the sector and an unwillingness to needlessly inflame Mexican sentiments by demanding a total opening. One participant noted that "U.S. control over resources created a revolution in 1914. Why chance it again?" Most respondents adopted such a soft-sell position, noting that Pemex is currently studying ways to admit foreign participation while retaining "nominal control."

Could have detrimental effect on environment

A disadvantage of energy liberalization surfaced in submissions from a U.S. environmental group which cautioned that "continued access to each other's resources until they are eventually depleted" would be a mistake.[37] The group argued that both countries "should retain the right to withhold natural resources." Moreover, they said that improved access to such resources by any party "should depend on ...first implementing strict conservation and efficiency measures."

[36] Testimony of Joseph McKinney, Baylor University, McAllen hearing tr., p. 133.
[37] Submission of Andrea Durbin, Friends of the Earth, op. cit., p. 2.

Motor Vehicles and Parts

Background

The motor vehicle industry in Mexico is dominated by the three large U.S. producers (Chrysler, Ford, and General Motors), one Japanese company, and one West German company. The three U.S. producers together accounted for about 60 percent of the Mexican market in 1989, with the Japanese (21 percent) and West German (18 percent) firms accounting for most of the remainder. The last domestic automobile manufacturer (Automex) was absorbed by Chrysler about 10 years ago.

The automotive parts industry in Mexico consists of approximately 100 companies employing approximately 164,000 workers. Many U.S. auto parts companies have operations in Mexico and more than 50 percent of their production goes into domestic Mexican use. Approximately 17 percent of the Mexican parts production is exported to the United States. Traditionally, Mexican parts production has involved low technology (glass, springs, wiring harnesses) or old technology (manual transmissions and rear drive axles). However, this is changing as more foreign investment, primarily from U.S. firms, enters Mexico to take advantage of lower labor costs and proximity to the U.S. market. The "Big 3" U.S. auto makers and other large auto parts suppliers have made extensive use of the maquiladoras to lower labor costs and increase their price competitiveness.

Mexicans purchase about 250 to 300 thousand vehicles annually, whereas annual production in Mexico ranges from 400 to 500 thousand. Mexico produces between 2 million and 2.5 million engines for motor vehicles annually, and industry sources estimate that Mexico has been exporting up to 1.2 million engines annually to the United States, Japan, and Europe. Workers in Mexican motor vehicle factories typically earn only $1 per hour compared with $22-25 per hour earned by U.S. workers.[38]

Bilateral trade, 1989

The tabulation below indicates U.S. imports of motor vehicles and parts from Mexico and U.S. exports to Mexico in 1989, by major items (in millions of dollars, data from Bureau of Census and estimates by the Commission):

[38] *Automotive News*, Oct. 10, 1989.

Imports HTS heading	Value
Motor vehicles	
Automobiles (8703)	1,175
Trucks (8704)	119
Total motor vehicles	1,294[39]
Motor vehicle parts	
Ignition wiring sets (8544 pt.)	841
Safety belts (8708.21)	364
Parts of motor vehicles, not elsewhere specified (8708.99)	341
Piston-type, spark-ignition engines (8407 pt.)	330
Furniture for motor vehicle use (9401 pt., 9403 pt.)	294
Car audio equipment (8518 pt., 8519 pt., 8525 pt., 8527 pt.)	285
Other motor vehicle parts	1,107
Total	3,562
Total motor vehicles and parts	4,856

Exports Schedule B heading	Value
Motor vehicles	
Automobiles (8703)	17
Trucks (8704)	17
Total motor vehicles	34
Motor vehicle parts	
Parts of motor vehicles, not elsewhere specified (8708.99)	1,308
Ignition wiring sets (8544 pt.)	451
Parts of piston-type, spark-ignition engines (8409 pt.)	184
Furniture for motor vehicle use (9401 pt., 9403 pt.)	144
Body stampings (8708 pt.)	140
Locks, hinges, other hardware (8301 pt., 8302 pt.)	110
Other motor vehicle parts	1,047
Total	3,384
Total motor vehicles and parts	3,418

Motor vehicles and parts represent the largest component of United States-Mexican bilateral trade. In 1989, U.S. exports of motor vehicles and parts to Mexico were valued at $3.4 billion and U.S. imports from Mexico were valued at $4.9 billion, representing a $1.5 billion surplus in trade for Mexico. A large share of U.S. imports were from U.S. companies with maquiladora plants dedicated to the fabrication and assembly of auto parts. Mexico was the leading supplier of U.S. imports of motor vehicle parts under HTS subheading 9802.00.80[40] in 1988, in terms of U.S. content. Mexico was second only to Canada as a supplier of motor vehicles under duty-free provisions.

Of the $1.3 billion in U.S. imports of motor vehicles in 1989, 91 percent was represented by automobiles. U.S. imports of automobiles from Mexico increased by 142 percent per year from 1985 through 1989. Imports of trucks from Mexico increased by 27 percent per year for the same period. Exports of motor vehicles to Mexico in 1989 were split evenly between automobiles and trucks, with $17 million of each. Exports of automobiles to Mexico increased by 36 percent per year from 1985 through 1989, while exports of trucks decreased by 11 percent per year.

United States imports of auto parts from Mexico rose 71 percent from $2.1 billion in 1985 to $3.6 billion in 1989. U.S. exports of auto parts to Mexico grew 79 percent from $1.9 billion to $3.4 billion for the same period. United States auto parts imported from Mexico represent 12 percent of total U.S. auto parts imports in 1989.

Mexican Barriers to U.S. Investment and Exports

In May 1989, the Government of Mexico relaxed its restrictions on foreign investment, permitting automotive firms to establish 100-percent foreign-owned companies in Mexico. This change represents a departure from previous regulations that prohibited foreign firms from obtaining majority ownership in a motor vehicle plant. Under new regulations, a motor vehicle producer can control his investment and maintain 100 percent of its profits for 20 years, after which the firm must sell an interest to Mexican investors. Qualifications for automatic approval of such investments require that six conditions are met: 1) capital investment should not exceed $100 million; 2) financing should be external; 3) projects should be located outside the Valley of Mexico, Monterrey, and Guadalajara; 4) over the first 3 years of a project, there should be an "equilibrium" in balance of foreign exchange; 5) permanent employment should be generated and training given to Mexican personnel; and 6) "adequate" technology should be used to satisfy environmental requirements.[41]

A December 1989 decree allows foreign carmakers located in Mexico to begin importing models not made in Mexico starting November 1, 1990. Mexico also eased its performance requirements for foreign investors in the motor vehicle sector. For the 1991 model year, a foreign manufacturer located in Mexico can import $1 worth of automobiles for each $2.50 of foreign exchange surplus generated through the export of vehicles. The ratio decreases to $2 of surplus for

[39] General imports.

[40] Articles assembled abroad in whole or in part of fabricated components, the product of the United States, which (a) were exported in condition ready for assembly without further fabrication, (b) have not lost their physical identity in such articles by change in form, shape or otherwise, and (c) have not been advanced in value or improved in condition except by operations incidental to the assembly process such as cleaning, lubricating and painting.

[41] *Financial Times*, May 17, 1989.

every $1 of imports in 1992 and 1993 model years, and declines to $1.75 for the 1994 model year.

Before the decree, an importer of a motor vehicle was required to obtain an import permit, pay an import duty equal to 20 percent of the vehicle's entered value, and a 15 percent value-added tax. For new models, an additional 30 percent tax was imposed, and an extra 10 percent tax was required. Under the new regulations, an importer is required to pay an import duty equal to 15 percent of the cost of the car, but no import permit is required.[42]

Mexican import duties for auto parts are now 20 percent, lowered from a maximum 100 percent in 1983. The auto parts industry is subject to the Foreign Investment Law, which does not permit foreign investment in auto parts in excess of 40 percent. Mexican local content requirements were reduced from 60 percent to 36 percent in 1989.

U.S. Barriers to Mexican Exports

A spokesman for a U.S. industry association noted that emissions and safety standards will complicate the issue of serving the United States and Mexico from the same plant. The United States has more restrictive and more expensive standards than Mexico. The spokesman indicated that Mexican citizens cannot afford vehicles built to these higher standards, and U.S. laws would not permit the importation of vehicles that did not meet the standards. The spokesman observed that it is more likely that Mexico would build vehicles to comply with emissions standards rather than safety standards, given the environmental problems of industrialized Mexico. He believed that the possibility of subsidizing the cost of meeting these higher standards must also be on the negotiation table.

U.S. duties on imported Mexican auto parts average 3 to 6 percent. However, the majority of the imports are from maquiladora plants which are subject to duty only on the value added in Mexico. Several auto parts from Mexico recently were extended GSP benefits lowering the duty to zero.

Following are the opinions of representatives of trade associations, government agencies, manufacturers, labor unions, and academia regarding the effects of an FTA on the motor vehicle and parts industry and trade between the United States and Mexico.

[42] Further information on recent liberalization measures by the Government of Mexico is contained in the Phase I report.

Advantages of an FTA to the motor vehicle and parts industry

Would exploit complementary relationship

A spokesman for one of the three large U.S. motor vehicle producers said that, although an FTA may accelerate a shift of production from the United States to Mexico, locating plants in Mexico would mean keeping them within the North American system. This participant argued that access to Mexican workers has assumed more importance as Europe becomes competitive through low-wage workers in Eastern Europe. Furthermore, the operations going to maquiladoras—wiring harnesses, electric motors, trim, seat covers—are likely to be shifted offshore in any case because of their labor intensity, and it would not make sense to establish capital-intensive, state-of-the-art plants in Mexico, he said. Several participants supported this conclusion, indicating that the benefit of a United States-Mexico FTA to the United States would be in capital-intensive industries, while that to Mexico would be in labor-intensive industries.

A member of a Washington think tank held the view that the motor vehicle sector in the United States will primarily benefit from an FTA. This individual suggested that motor vehicle plants in Mexico might even disappear as manufacturers service the Mexican market with imports. One attorney noted that the United States is facing a labor shortage, especially in semiskilled, low-wage areas of activity, and an FTA may force the United States to look more closely at its immigration laws. The attorney reported that he does not think Mexican labor or imports would displace U.S. auto workers.

A spokesman for a Washington think tank said that Mexico's auto parts sector is likely to benefit from an FTA. He predicts that Mexico will move from the inefficient production of motor vehicles to the efficient production of motor vehicle parts.

Would save U.S. jobs

Some participants stated that an FTA may cause U.S. motor vehicle parts operations to shift further to Mexico. Insisting this is a process which "cannot be avoided," several participants noted that, regardless of whether an FTA is completed, the movement of low skilled manufacturing jobs will be out of the United States to low cost production areas. They believed it preferable to have these jobs move to Mexico, where employees are likely to purchase U.S. products with their wages, and companies in Mexico will buy U.S. parts for their production.

Some participants expressed the view that U.S. labor would not lose many jobs because of the lower wage structure in Mexico. Proponents of this view said that productivity in Mexico varies by plants, and labor is only one component of production. They noted that other important factors including industrial infrastructure, availability of such services as engineering services, raw materials, and supplier networks are also important in determining the cost of producing motor vehicles. Mexico, they said, is not as competitive in these factors. Labor is a declining cost component in today's modern automotive industry, they assert, and therefore Mexico's low-cost labor may not by itself trigger an avalanche of U.S. investment.

Disadvantages of an FTA to the motor vehicle and parts industry

Would cost U.S. jobs

A participant at one of the major U.S. motor vehicle producers indicated that the export of jobs to Mexico is the major concern of U.S. labor. He noted that the contracts between the United Auto Workers (UAW) and the "Big 3" automobile manufacturers expired in September 1990, and the UAW has already demanded increased job protection. The union has expressed its strong opposition to an FTA that would permit free movement of labor, commodities, and capital, and thus would threaten U.S. jobs through imports, immigration, and capital exports.

According to a spokesman for the UAW:

> We strongly oppose the initiation of free trade negotiations between the United States and Mexico.
>
> The UAW has watched with anger and horror the rapid expansion of maquiladora production in response to Mexico's debt crisis. American jobs have moved across the border to pay predominantly young women far less than one dollar per hour. The living conditions in the rapidly growing Mexican border towns are appalling and the stories of toxic waste dumping are truly frightening.
>
> By linking its economic fortunes with Mexico, the United States opens up a vast reserve of low wage labor that allows the past decade's policy of creating millions of low-wage jobs to continue. Unfortunately, this policy discourages domestic investment in technology, machinery and other capital equipment needed, along with investments in education and training for workers, to raise living standards for American workers.
>
> The wide differential in the level of economic development between the United States and Mexico means that our social priorities are far apart. The differences in our political systems mean that our methods of sorting out these priorities and marshalling resources to deal with them will be very different. A free trade agreement would not be capable of coming to grips with these institutional differences, so we reject this approach.[43]

A leading U.S. academician on Mexican economic and political issues stated that the United States must do more to assist those workers displaced by companies moving from the United States to Mexico and must be more "generous" to them than provided for under existing assistance programs. He indicated that it costs the U.S. consumer more to pay for goods with higher tariffs than to assist the particular workers in the affected industries to get new jobs. He, and a number of other participants, stated that there must be relocation, retraining, and salary supplements for the displaced workers.

May benefit new competitors at cost to old competitors

A representative of the U.S. industry in Mexico stated that U.S. motor vehicle manufacturers have been in Mexico since the early 1990s, and they built their plants under rules that forced otherwise unnecessary investments. He said that if an FTA is concluded, Mexico may open up investment to all countries, including Japan, without these restrictive rules. Several participants were concerned that if Mexico opened up trade to the world in the motor vehicle industry, the companies that incurred the costs of investing under the old rules would operate at a disadvantage, unless protected by a transitional period of perhaps 5 years. An advisor for one of the U.S. motor vehicle producers reported that an FTA should include transitional rules to protect existing investments in Mexico. Another spokesman for the same manufacturer stated that there should be a balanced phase-in period of about 10 years for an FTA.

Could lead to a circumvention or displacement of U.S. and Mexican content

A spokesman for one manufacturer reported that rules of origin should be adopted to require a certain level of domestic content in products sold in a North American Free Trade Zone, including automobiles. He indicated that such rules are necessary because the EC and Japan already have either de jure or de facto rules of origin/domestic content requirements. Another manufacturer indicated that his firm was operating at about 60 to 70 percent domestic content, but he would be satisfied with a 50 percent domestic content rule, although he could accept a domestic content of only 42 percent.

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[43] Statement of Steve Beckman, UAW, to the House Committee on Ways and Means, op. cit.

May benefit foreign companies more than Mexican

A University of Texas professor asserted that an FTA may have a negative impact on the Mexican automobile industry. The Japanese have recently been investing in automobile parts maquiladoras which are well established auto parts suppliers to Japanese firms in Kentucky, Ohio, Tennessee, and Michigan. A FTA could increase the Japanese investment to the detriment of the Mexican auto parts makers.

According to a U.S. academician, an FTA is likely to have little effect on Caribbean Basin countries due to the specialization of industries. He said, however, that Canada would experience competition in terms of Mexico's lower cost labor and that this could negatively affect the Canadian motor vehicle industry. He also said that Japan could use the FTA to their advantage by using Mexico to enter the U.S. market and avoid duties.

Another participant, in noting that the productive capacities are already built in all three North American countries, said that major shifts as a result of an FTA are unlikely. The only production capacity to be expanded will be from the Japanese, this participant said. Moreover, except for Nissan supplying cars to the United States from Mexico instead of from Japan, there likely will be no trade shifts (diversion) as a result of an FTA, according to one industry source. This participant said that the Canadian motor vehicle industry participates in high technology design and production, and as Mexico is not yet able to do so, Canada does not view Mexico as a direct competitor in this industry.

A Canadian professor said that, with an FTA, Mexico would likely displace the newly-industrialized economies (NIEs) of Korea and Taiwan in the production of motor vehicles and parts. He said the Canadians are particularly concerned about the impact of an FTA on the United States-Canada auto pact (Automotive Products Trade Act).[44]

Petrochemicals

Background

Petrochemicals are broadly defined as any chemical derived from petroleum or natural gas; such a definition encompasses virtually all chemicals currently in use. However, for purposes of the study, the petrochemical sector was more narrowly construed. Discussions with Mexican industry officials[45] focused on those compounds that are designated by the Mexican Government and industry as "basic" and "secondary" petrochemicals.[46] For the purpose of the discussion that follows, Mexico's definition of such products is used.

Currently, ownership of basic petrochemical production is reserved for Pemex. Following a revision of the nation's foreign investment rules in May 1989, however, a number of basic petrochemicals were reclassified as secondary, and 100-percent foreign ownership of production of all secondary petrochemicals was allowed.[47] Basic petrochemical imports into Mexico enter duty free, with tariffs for secondary products ranging from 10 to 15 percent; there are, however, additional handling fees and a value-added tax of 15 percent, which effectively almost doubles the tariff rates.

Current U.S. tariff rates range from duty-free treatment of basic petrochemicals to 20 percent on some secondary petrochemicals; there are no quotas or other restrictions on either imports or foreign investment in the U.S. petrochemical industry.

Bilateral trade, 1989

The following tabulation shows U.S. petrochemical imports from and exports to Mexico, by major items, in 1989 (in millions of dollars, data from the Census Bureau):

Imports	*Value*
Basic Petrochemicals	18.7
Secondary Petrochemicals	1.0
Total	19.7
Exports	*Value*
Basic Petrochemicals	352.2
Secondary Petrochemicals	212.1
Total	564.3

Mexican exports of petrochemicals to the United States represent less than 2 percent of total U.S. imports of basic products and less than .5 percent of secondary petrochemicals. While Mexico is not a primary market for U.S. exports of these products, it does account for approximately 12 percent and 14 percent of basic and secondary U.S. exports, respectively.

[44] The U.S.-Canada auto pact has been in effect since 1965 and consists of 2 parts: (1) allows for open trade in automobiles between United States and Canada and; (2) allows for a limited form of participation in open trade for some foreign car companies.

[45] No views were expressed by the spokesmen for the U.S. petrochemical industry.

[46] See app. E, "Basic and Secondary petrochemical categories resulting from Mexico's August 1989 reclassification," in the Phase I report. These compounds comprise the rudimentary building blocks of the industry. Although specific inclusions in each of these categories are arbitrary and subject to change, for purposes of general discussion, these differences are not significant.

[47] Prior to May 16, 1989, foreign ownership of secondary petrochemical production in Mexico was limited to 40 percent equity participation.

Advantages of an FTA

In general, those Mexican producers of secondary petrochemicals who were interviewed are in favor of an FTA, provided that a 5 to 6 year phase-in period is incorporated in the agreement. Perceived advantages of an FTA include an expansion of the domestic market, opportunities for increased Mexican exports to the United States, and an enhanced competitive position for the North American petrochemical industry that could provide a counterweight to future competitive challenges from abroad. Also included with some ambivalence as a positive outgrowth of an FTA, was the increased sectoral foreign investment in Mexico, thereby contributing to elimination of the current basic feedstock bottleneck in that country.

May aid growth in Mexican domestic market

One direct benefit of an FTA for the Mexican petrochemical sector is an expansion of the Mexican domestic market, particularly if U.S. textile quotas for Mexican exports are increased significantly or eliminated.[48] However, participants were uncertain about the possibilities for Mexican firms to exploit such an expansion. Discussions indicated that Pemex's monopoly of basic petrochemical production has created such a severe bottleneck that at least one private company has committed funds to assist the national petroleum company in building a new facility for basic petrochemical production. Pemex is reported to need investment of more than $1 billion over the next 2 years to meet domestic demand for basic feedstocks.[49] However, Mexican industry officials stated that "the status quo" was preferable to foreign investment if the bottleneck could indeed be eliminated through such other means; as one official put it, "it is not optimum for basics to be in non-Mexican hands."

Would eliminate tariffs

Currently, many Mexican producers purchase basic feedstocks from the United States and transform them into secondary products, which are then subject to full tariff rates upon reentry to the United States. Many Mexican participants believed that elimination of U.S. tariffs on secondary petrochemicals would likely increase Mexican exports, perhaps by as much as 100 percent.[50] Hearing testimony suggested that modern Mexican petrochemical facilities recently built on the Gulf Coast could expand production of ammonia fertilizers, for example, and "could produce fertilizer at perhaps lower cost than the world market at this time. This would bring fertilizer at a lower price to...all farmers in North America."[51]

Mexican producers suggested, however, that the U.S. petrochemical industry is among the most technologically advanced in the world and is tremendously efficient due to economies of scale and backward integration with U.S. oil companies. For these reasons, Mexican producers consider it unlikely that exports to the United States will increase to any great extent in absolute terms under an FTA.

Will help offset other trading blocs

Mexican industry officials noted that a complementary strengthening of the North American industry may be an asset in offsetting competition in petrochemicals from future producers, most notably the Saudis. Participants asserted that Saudi oil reserves and the comparative ease with which liquid-derived petrochemicals can be transported makes it highly likely that there will be future competition from this source. An FTA is seen by Mexican business leaders as contributing to increased competitiveness of the North American industry through technology sharing and complementary production.[52]

May increase access to capital

An ancillary area of agreement under an FTA that would be of great benefit to Mexican producers is the liberalization of Mexico's financial markets. Mexican industry spokesmen reported that their investment in plant and equipment is restricted because of the current high cost of capital. Said one, "A current joke is that the interest rate used to be LIBOR + 2 percent; currently it is LIBOR x 2 percent." Only if an FTA facilitates a move to more competitive capital markets, either by encouraging foreign banks to enter Mexico or by presenting a more stable image of Mexico to U.S. capital sources, will the Mexican petrochemical industry be able to modernize sufficiently, warned these Mexican business leaders.

[48] Petrochemicals are raw materials used in the manufacture of synthetic fibers for textiles.

[49] One U.S. participant noted that Mexico needs about $5 billion in support of their petrochemical industry.

[50] Mexican participants stated that tariff elimination might double Mexican petrochemical exports to the United States but that this would still comprise a relatively small amount of the U.S. market. They state that currently Mexico exports approximately 35 percent of its petrochemical production, 10 15 percent of which goes to the United States. U.S. spokesmen disputed these statistics.

[51] Testimony of Roberto Gamboa, Counsel General of Mexico, Las Cruces hearing, tr., p. 78.

[52] Mexico produces petrochemicals from natural gas reserves associated with petroleum production as well as from petroleum derivatives. Because of the cost and difficulty associated with transportation of gas- based petrochemicals, Mexican industry officials see a comparative advantage for them in the close proximity to domestic and U.S. markets vis-a-vis foreign producers.

Disadvantages of an FTA

May lead to strong import competition

Mexican producers are concerned that too rapid an implementation of tariff reductions may lead to strong import competition from U.S. producers, which were characterized as having balanced markets, the most technologically advanced industry in the world, and as having economies of scale not possible in Mexico under the current bifurcation of production.[53] One illustration of existing inequities resultant from current industry structures was the present pricing differential between the two countries for feedstocks; for example, Pemex charges "artificially high" U.S. spot market prices to Mexican petrochemical manufacturers, while U.S. producers are able to "obtain feedstocks from corporatively-related firms at low intra-company transfer prices."[54] Mexican industry officials indicated that the current disadvantages can be dealt with, if there is a gradual phase-in of tariff reductions.

Finally, secondary petrochemical producers in Mexico are fearful that, should Pemex be opened completely to foreign investment, they might once again find themselves a hostage for basic feedstocks, however, not to Pemex but to foreign concerns.

Pharmaceuticals

Background

The Mexican pharmaceutical market is dominated by foreign multinational corporations, including U.S. firms. United States and other foreign firms operating in Mexico generally perform research and development activities in their home markets and manufacture pharmaceutical products for the Mexican market in that country.[55] Mexico's presence in the U.S. pharmaceutical market is limited to a relatively low level of U.S. imports.

The major U.S. trade barriers facing Mexican pharmaceutical products include tariffs and government approval requirements. United States import duties on pharmaceutical products are relatively low, particularly compared with Mexican duties on comparable products. The Food and Drug Administration (FDA) requires that drugs be tested to determine safety and effectiveness before they can be legally sold on the U.S. market. This requirement pertains equally to domestic products and imports; however, U.S. procedures are considered to be among the most rigorous in the world.

The principal Mexican trade barriers affecting U.S. pharmaceutical products include tariffs, buy-domestic sourcing policies of the Mexican government, domestic price controls, and lack of intellectual property right protection. Mexican tariffs have been substantially reduced in the years since Mexico joined the GATT. However, such tariffs are still relatively high compared with U.S. tariffs, and the maximum tariff rate is 20 percent ad valorem.

The domestic sourcing policy of the Mexican Government gives preferential treatment to Mexican firms to supply the public sector.[56] This policy has been relaxed in recent years and may eventually be eliminated. The Mexican Government maintains domestic price controls on many pharmaceutical products. These controls affect the profits of U.S. pharmaceutical firms operating in Mexico.

The major impediment facing U.S. pharmaceutical exports to, as well as investment in, Mexico is inadequate Mexican legal protection for intellectual property. In general, many products and production processes are afforded no protection at all; protection that is extended is less comprehensive in Mexico than in the U.S. market.[57]

In addition to the above sector specific barriers, other impediments affect pharmaceutical trade between the United States and Mexico. These include inadequate infrastructure, lengthy and unpredictable administrative procedures, lack of market knowledge, and the limited availability of financing.

As a result, trade between the United States and Mexico in the pharmaceutical sector is relatively minor compared with other sectors. Mexico is only the 16th leading U.S. import supplier (in terms of value in 1989), with U.S. imports from Mexico at just $6 million, or less than 1 percent of the U.S. total. Mexico is ranked 15th among U.S. export markets, with U.S. exports to Mexico at just $41.2 million, or less than 2 percent of U.S. export sales worldwide.

Bilateral trade, 1989

The following tabulation shows U.S. pharmaceutical imports from and exports to Mexico, by major items, in 1989 (in thousands of dollars, data from the Census Bureau):

53 Several U.S. industry analysts noted that the Mexican industry indeed has state-of-the-art facilities and is currently a strong competitor in the U.S. market.
54 U.S. Department of State telegram, August 1990.
55 Sidney Weintraub, *A Marriage of Convenience*, (New York: Oxford University Press, 1990), pp. 112-113.

56 For a detailed discussion, see Phase I report, ch. 4, pp.4-8 to 4-9.
57 Ibid, ch. 6.

Imports *HTS heading*	*Value*
Blood and cultures (3002)	3,861
Treated bandages (3005)	1,767
Medicaments, in retail form (3004)	583
Medicaments, not in retail form (3003)	42
Specified pharmaceutical goods (3006)	2
Total	6,256

Exports *Schedule B heading*	*Value*
Medicaments, in retail form (3004)	16,520
Treated bandages (3005)	8,462
Medicaments, not in retail form (3003)	6,096
Specified pharmaceutical goods (3006)	5,722
Blood and cultures (3002)	3,339
Glands and other organs (3001)	1,037
Total	41,176

As shown above, the United States enjoys a positive trade balance with Mexico for pharmaceutical products. The major U.S. pharmaceutical export category to Mexico is medicaments in retail form, whereas the major U.S. pharmaceutical import category from Mexico is blood and cultures.

Summary of views

During the course of this investigation, the Commission obtained views from various interests on the advantages and disadvantages regarding an FTA and/or sectoral agreements. Limited feedback was received regarding the pharmaceutical sector. The major issue of concern to the U.S. pharmaceutical sector is patent protection.[58]

Advantages of an FTA

Would open U.S. access to Mexican market and provide technology to Mexico

One official of a major U.S. pharmaceutical company stated that an FTA was the best approach to solve most of the problems facing his sector, particularly with regard to foreign investment and intellectual property protection. The official noted that a sector approach has been attempted and that the United States should not "waste time" on such an approach. An FTA would generally give U.S. exporters easier access to a larger market in Mexico, while Mexico would gain technology that would increase productivity and lead to better export opportunities, according to this expert.

Disadvantages of an FTA

May delay patent protection reforms

The major concern of the U.S. pharmaceutical industry is that any linkage between an FTA and pending revisions in Mexican patent law may delay patent protection reforms. A U.S. pharmaceutical industry representative stated unequivocally that the industry does not want any connection between an FTA and Mexican patent law reforms. The Mexican Government announced on January 16, 1990, that it would amend its patent law before 1991, which is before FTA negotiations are likely to be concluded. This agreement was made before any commitment to an FTA was announced. The U.S. industry wants to ensure that Mexico enacts an "adequate, world-class" patent law without loopholes that would negate product patent protection. In addition, U.S. pharmaceutical representatives said that the outcome of the Mexican patent law reform would be an excellent "barometer" of the intent of the Mexican Government with regard to an FTA.

Services

Background

Although most participants stated that services should be included in FTA negotiations, there was little consensus about what might be included under this heading. Despite general agreement among both U.S. and Mexican participants that financial and transportation services should be addressed in FTA negotiations, additional suggestions of sectors for inclusion in services discussions appeared to reflect different interests and perceived strengths of both Mexico and the United States. For example, some Mexican participants stated that consultation about labor services was a requirement if other areas such as financial services and intellectual property were embraced, and some U.S. respondents included labor issues as well. Indeed, one Mexican economist suggested that the two sides may be operating "from two different sets of paradigms," with Mexico's strategy "almost entirely focused upon winning tariff and non-tariff concessions from the U.S. [on goods, while] the United States...is likely to raise market access in a much broader context," including "the provision of financial and transportation services."

Those services which elicited most comment were financial (e.g., banking, securities, insurance) and land transportation, primarily with respect to the trucking and rail industries. In addition, comments related to needed infrastructure improvements occasionally touched on the need for joint liberalization of current construction and engineering regulations.[59] In general, liberaliza-

[58] Submission by Gerald J. Mossinghoff, Pharmaceutical Manufacturers Association, to the Commission.

[59] With respect to such regulations, both Mexican and U.S. participants commented that current provisions allowed some reciprocal participation in trans border projects. However, Mexican contractors are subject to local regulations in the United States and find it difficult to meet requirements for Workman's Compensation and surety bonds. A U.S. Government Official in Mexico noted that while U.S. companies in architecture and engineering services have traditionally been excluded from the Mexican market by laws and regulations, this

tion of such services by Mexico was viewed as important not only from a sectoral perspective but also for the broader-based benefits such liberalization could provide, given the vital role of transportation and finance in United States-Mexican commerce generally.

In addressing services, a number of U.S. and Mexican respondents suggested using the Canadian Free Trade Agreement as a model for a United States-Mexico FTA, and many also suggested that some services issues may be at least partially resolved in the Uruguay Round. Although an FTA was seen as the preferred option, at least one U.S. industry representative argued that a sectoral agreement for financial services "would be better than achieving nothing."[60]

Financial Services

Non-tariff barriers

Although Mexican regulations for both banking and insurance have been liberalized in recent months,[61] restrictions still exist that limit foreign participation in these areas. In insurance, foreign investment is limited to 49 percent, though there are no restrictions on foreign participation in the reinsurance market if at least 50 percent of the business is placed in the local market. In addition, since January, 1990,[62] there has been deregulation of insurance prices and coverage and a separation of the insurance industry from the banking industry.

In banking, Mexico's 1982 constitutional provision nationalizing the banks was amended in December 1989, an action one hearing participant characterized as "the cornerstone...of the Salinas reforms."[63] Beginning in April 1989, individual banks were allowed to set interest rates, reserve requirements were reduced; and the lending requirements for concessionary loans to agriculture and low-income housing were revised. However, Mexican law still prohibits foreign banks from engaging in banking operations (e.g., the right of establishment) although their offices are permitted.

Mexico's securities industry is also essentially closed to foreign participation. Laws published in May 1989 state that financial trusts and funds are reserved exclusively to the State; financial and investment service counseling and stockbrokerages and stock exchange services are reserved to Mexican nationals. However, up to 49 percent foreign ownership of financial leasing companies is allowed.

[59]—*Continued*
situation is changing slowly; currently, "creative ways have been found" to bid on projects in concert with Mexican companies.

[60] Written submission by Lucrecia Fernandez Serrano, Chubb & Son, Inc., to the Commission, p. 2.

[61] Phase I report, pp. 5-10 and 5-11.

[62] Ibid.

[63] Las Cruces hearing, tr., p. 75.

United States industry analysts said that there are no barriers to foreign participation in the financial sector of the United States, provided that U.S. legal requirements (i.e., capital reserves) are met. However, Mexican analysts pointed out that differences in U.S. banking requirements on a state-by-state basis are a barrier and should be addressed in FTA negotiations.

Structure of the Mexican industry

There are approximately 48 domestic insurance firms in Mexico. Two of these firms are government owned; two are mutualist entities and two are in the reinsurance area. Although premiums totaled an estimated $2 billion in 1988, the market is a small percentage of GDP, compared with 8.9 percent of GDP for the United States.[64] In the banking sector, there are now approximately 19 commercial banks and 8 development banks in Mexico,[65] over 30 brokerage houses, and over 150 investment partnerships. Citibank operates in Mexico as a commercial lender; the firm's operations were grandfathered in after the nationalization of the banks in 1982. All major credit card companies, e.g., Visa, Mastercard, American Express, have operations in the country as well.

Advantages of an FTA

Increased access to capital

United States industry participants noted several advantages if financial services are opened under an FTA arrangement, including increased access to the Mexican market for U.S. firms and a greater surety of payments in business transactions.[66] U.S. banking analysts noted, however, that while having the capability of investing in Mexico is indeed desirable, it is likely that U.S. banks would be leery of immediately capitalizing on such opportunities in the commercial market, given Mexico's record of bad loans and repayment difficulties.[67]

From the Mexican perspective, the single greatest advantage of opening financial services is the potential effect it might have on availability of investment capital in Mexico. Many participants noted that because current interest rates in Mexico are so high, modernization and investment efforts by domestic companies are hindered. It was suggested by a number of Mexican

[64] In 1987 it represented about 1.16 percent of Mexican GDP.

[65] Of the 19 commercial banks, 6 have full national coverage, 7 are "multiregional" and the remaining 6 are regional in nature. In addition to the 8 development banks, there are over 40 development funds where commercial banks can discount credit for specific purposes, with subsidized interest rates.

[66] Several respondents noted that Mexican letters of payment were not honored by most U.S. regional banks in the southwest and that, in some cases, U.S. businessmen experience problems with payment because of this. Tucson hearing tr., pp. 62 and 216.

[67] Tucson hearing, tr., p. 215.

businessmen that access to loans from U.S. banks would put competitive pressure on their Mexican counterparts to bring down the cost of capital and to be more customer oriented. In addition, movement toward an open competitive financial system was viewed as providing a perception of security that is seen as a vital component in encouraging foreign investment in Mexico and in enticing Mexican capital now secreted abroad to return.

Would make Mexican market a good opportunity for U.S. firms

United States Government and U.S. industry officials said that many opportunities for U.S. investment in insurance and securities would open in the Mexican market, if, as one participant stated, "the Mexican financial services market was changed to create national treatment ability for affected U.S. financial services. Specifically, in the property/casualty insurance industry..."[68] One U.S. Government official expressed the opinion, "The large U.S. insurance firms would dominate the Mexican market if this area were liberalized. Their enormous resources and infrastructure would make them impossible to compete with." This view was shared, with some concern, by Mexican analysts as well.

Would level the playing field

Several Mexican analysts stated that one advantage of opening the financial sector would be to bring foreign entities into the mainstream and force competition on a more level playing field.

> Foreign banks and non-banks regularly operate and compete in Mexico's financial markets...at an extreme advantage over domestic firms both because of the laxity with which they interpret the laws and regulations as well as because of the much smaller costs they incur by not having to comply with onerous reserve requirements and a network of offices throughout the country.[69]

Disadvantages of an FTA

Some Mexican firms will disappear

According to several Mexican services analysts, Mexico's insurance industry is vulnerable to U.S. competition. In the words of one:

> the size of domestic [insurance] firms... make them truly sitting ducks for foreign competitors...Hence, from a competitive point of view, liberalization would probably lead to the death of most local insurance companies, except for those that merged with or were acquired by foreigners.[70]

Analysts holding this view suggested that while some of the largest Mexican banks and specialized regional banks might survive, multiregional and large uncompetitive banks "are likely to collapse."[71] In brokerage houses and other non-bank intermediaries, Mexican observers were of the opinion that "available expertise and experience is thinner and the capital base of the largest and most competitive is very small. Hence, foreign competition probably would affect non-banking intermediaries as a sector."[72]

Transportation Services

Non-tariff barriers

U.S. participants representing a wide sector of U.S. industry interests identified lack of competition in Mexico's transportation industry as a non-tariff trade barrier in that the current monopoly "has an impact on price competition" and affects timely delivery of products to the interior of the country.[73] One witness at the Commission's McAllen hearing said, for example, that "U.S. agricultural producers are increasingly unable to realize comparative advantage of their proximity to Mexico over international competitors because of transportation and logistics difficulties."[74]

Although nearly 80 percent of cargo in Mexico moves by truck,[75] U.S. motor carriers are prohibited from operating there by the Mexican Constitution, which restricts commercial use of public roads to Mexican nationals. The U.S. Interstate Commerce Commission also restricts access to U.S. highways for Mexican commercial vehicles.[76] Such restrictions typically result in merchandise of U.S. origin being transferred at the border to Mexican tractor-trailer rigs, a "shuttle" practice that, some analysts believe, "contributes to additional transit time, costs and pilferage."[77] At the main border-crossing points for industrial products, a shortage of trailers on the Mexican side reportedly may cause delays of up to 15 days.[78]

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[68] Submission by Lucrecia Fernandez-Serrano, op. cit.
[69] Luis Rubio, Edna Jaime and Alberto Diaz for Comercio Internacional Banamex, *Mexican Trade in Services: Challenges and Perspectives.*

[70] Ibid, p. 22.
[71] Ibid.
[72] Ibid.
[73] Las Cruces hearing, tr., p. 95.
[74] McAllen hearing, tr., p. 173.
[75] McAllen hearing, tr., p.190.
[76] Although all motor carriers are required to be registered and certified as meeting U.S. safety standards, Mexican truck carriers currently have a temporary exemption to those regulations.
[77] U.S. Congress, *Country Reports on Economic Policy and Trade Practices*, March 1989.
[78] *Business Mexico*, December 1989, p. 26.

Mexico did take steps to deregulate the trucking industry last year and some liberalization of access has also been instituted.[79] Most significantly, both countries permit relatively free trucking operations in international commercial zones surrounding border cities and, in some cases, Mexican truckers work in the United States beyond the border zone. However, such practices are not uniformly honored by Mexican officials, some of whom are reportedly under the influence of strong union bosses.[80]

The Mexican Constitution currently reserves the railroads to the Mexican Government; private operators, either Mexican or foreign, are not permitted. The Mexican rail system is characterized by outdated infrastructure, facilities, and procedures. There is a critical lack of rolling stock. Both U.S. and Mexican industry spokesmen noted cases in which rail cars were unavailable for transport during peak agricultural seasons.[81]

Structure of the Mexican industry

Prior to deregulation of the trucking industry in Mexico in 1989, an estimated 30,000 to 70,000 "pirate" vehicles were operating outside the official framework of the government-sanctioned Central de Carga line. Since the number of operators that have secured permission to operate under the new guidelines is not updated, there are no current estimates of the number of existing independent operators.

Advantages of an FTA

Would improve timeliness, cost and quality of service

United States industry officials that rely on trucking to transport products to Mexico or to receive supplies within Mexico (such as components for maquila operations) were entirely supportive of the possibility of opening the transportation sector to U.S. carriers. They cited a desperate need for expedited services and the potential for lower costs due to time savings, reduction of Mexican import tariffs on vehicles, and the elimination of dual trucking facilities and the current cross-border "shuttle" requirements. In addition, one witness at the Las Cruces hearing asserted that "if Mexico would accept even a 49 percent rule on foreign ownership, the impact on quality of service in Mexico would be dramatic."[82]

United States industry spokesmen noted that an FTA that allowed private investment in Mexican railroads should help to modernize the system.[83] Since rail is reportedly a more competitive means of transportation than truck in many cases, it was suggested that if an FTA removes restrictions on investment and encourages improvement in infrastructure, commerce between the two countries will be greatly enhanced. Several representatives of Mexican business and industry also voiced a need for general rail improvement but were not specific in recommending privatization, joint ventures, or any other means to achieve such improvement.

Disadvantages of an FTA

Wage rate differential could make competition difficult for U.S. companies

Those U.S. respondents that own trucking companies and have offices within Mexico advocated a "go-slow approach" in opening the trucking industry, because of a variety of current problems. They opposed the immediate inclusion of trucking issues in FTA negotiations because the cost differential in fuel and wages between Mexican and U.S. drivers would place U.S. trucking firms at a substantial disadvantage. Mexican drivers reportedly make $5 per day, compared with U.S. wages of $10 to $15 per hour. One participant also estimated that, if Mexican truckers were allowed greater access to the United States, the reported 20 to 25 cents per mile cost differential "could add up to substantial benefits to Mexican truckers." Because of this concern, one participant suggested that "opening up competition in trucking should not happen for at least several years; even five years from now could be too soon."

This participant also cited the need for U.S. companies to establish long term business relationships in Mexico and for hiring bilingual drivers. In addition, there was much discussion of the disparity between the construction and specifications of each country's vehicles and roads. Several participants asserted that "as [it] is, you could not run a U.S. truck on a Mexican road successfully for more than a year, and Mexi-

[79] Maquiladoras have been given permission to obtain truck operating authority by having been officially determined to be Mexican nationals, and several major U.S. companies (Roadway and Ryder) have worked out arrangements that allow them to come as close as legally possible to having subsidiaries in Mexico. In addition to trucking, Mexico also liberalized bus transportation, allowing U.S. companies to develop charter and tour services through contractual relationships with business entities.

[80] The influence of unions in this industry will undoubtedly complicate the entry of U.S. trucking firms into Mexico, some experts believed. One Mexican official noted that only recently has the power of "the trucking mafia" been curtailed; he stated that to get goods moved in a timely manner "prior to the cleanup, you had to give them a bar-b-que every week." See also, Phase I report, pp. 3-2 to 3-5.

[81] For example, in an interview with offícals of a steel company, it was noted that inventories of raw materials were stockpiled prior to the sorghum harvest as there was no rail transportation available for their use during that time.

[82] Las Cruces hearing, tr., p. 88.

[83] It was noted that many of the procedural delays stem from U.S. Customs procedures, while problems in Mexico are primarily those of antiquated and insufficient rolling stock and structure. (Tucson hearing, tr., p. 193.)

can trucks are overbuilt [too heavy] for U.S. roads." There were no disadvantages mentioned by either the Mexican or U.S. participants with respect to liberalization of rail transport.

Steel

Background

The United States restricts imports of steel and steel products from Mexico under terms of a Steel Trade Liberalization Program begun in September 1989. This program consists of two parts: a bilateral consensus agreement to restrict trade distorting practices in steel and an extension of the Voluntary Restraint Agreement (VRA) program begun in 1984.[84] The VRA is scheduled to be in effect through March 1992 and covers a wide variety of steel products (see appendix E). It is perceived by the Mexican industry as the most pronounced U.S. non-tariff trade barrier for this sector.

Despite complaints about the product composition of the VRA quotas,[85] Mexican producers indicated that they did not expect to see VRAs eliminated under an FTA, but rather to see them expire naturally with the ending of the current arrangements. Neither U.S. nor Mexican participants advocated extension of the VRA program after March 1992, as both sides appeared more interested in achieving agreements with respect to subsidies and other trade-distorting measures under the current bilateral consensus discussions in the Uruguay Round. One U.S. respondent suggested that an interim sectoral arrangement in steel might be possible while a full-fledged FTA is being negotiated.

A non-tariff trade barrier employed by Mexico which was cited by U.S. industry officials, was the requirement for procurement of Mexican-made materials for Mexican government projects and by parastatal firms. This reportedly eliminates U.S. export possibilities for certain tubular products used in energy production or long products used for infrastructure construction. One U.S. industry official noted that his company purchased $15 to 20 million of steel slab from Mexican mills in the first half of 1990 but, because of such a buy-Mexican requirement, has yet to sell more than "a shirtpocket full" of proprietary grade tubular products in Mexico.[86] In light of this, he proposed that a "locked-in" trade balance be negotiated with Mexico, under which the value of steel mill product imports and exports would be equal. This same idea was also suggested independently by a former steel trader, now a U.S. Government official.

United States tariffs on steel and steel products currently range from 0.9 percent to over 11 percent for certain stainless products. Mexican steel tariffs are currently at a maximum level of 15 percent, having been reduced from 50 percent in the early 1980s, and are reportedly assessed on insurance, freight and handling, as well as on the declared value of the product.[87] In addition, there is a 15 percent value-added tax on all goods sold within Mexico. United States importers stated that costs associated with such additional charges make it impossible to compete in the Mexican market on the basis of price.

Bilateral trade, 1989

The following tabulation shows U.S. steel imports from and exports to Mexico, by major items, in 1989 (in millions of dollars, data from the Census Bureau):

Imports	*Value*
Basic products[88]:	
Carbon steel	118.4
Stainless steel	34.1
Other alloy steel	3.3
Pipe and tube	75.8
Certain wire products[89]	17.7
Other	2.7
Total	252.0

Exports	*Value*
Carbon steel	227.3
Stainless steel	45.8
Other alloy steel	65.9
Pipe and tube	52.3
Certain wire products	36.9
Other	8.9
Total	437.1

Mexico is one of the leading foreign markets for U.S. steel, accounting for 12 percent of all such exports in 1989. Primary steel products exported to Mexico included sheet and strip products (53 percent of total U.S. exports to Mexico, by quantity), used rails (9 percent), and structurals (8 percent). Conversely, the United States is Mexico's primary market, receiving just

[84] Under the VRA agreements, quotas for imports of specific steel products are imposed, calculated as a percentage of U.S. domestic consumption. Mexico is one of 16 countries and the EC which have signed VRAs under the Steel Trade Liberalization Program. Consensus agreements have been signed with 9 nations and the EC to date. A multilateral arrangement is currently under discussion in the Uruguay Round.

[85] Mexican producers stated that, under provisions of the extended VRA program, quotas were more restrictive in products for which Mexican producers have a comparative advantage while liberalization was given in those products for which Mexican producers have no competitive advantage.

[86] This item is a "special order" product, made to exact specifications for a particular project.

[87] Submission by Border Steel to the Commission.

[88] Includes semifinished steel (i.e., ingots, blooms, billets and slabs), flat-rolled products, bars and rods, wire and structural shapes (including rails).

[89] Includes wire rod, wire, wire strand, wire rope, fencing and nails.

under one-half of Mexico's total exports; imports from Mexico accounted for about .6 percent of U.S. domestic consumption in 1989. Primary steel exports to the United States include pipes and tubes (26 percent of total Mexican exports to the United States, by quantity), semifinished products and plate (19 percent) and galvanized sheet (18 percent). Although certain steel products were eligible in the past for preferential tariff treatment under the Generalized System of Preferences (GSP), currently there is no GSP allowance for imports of Mexican steel or steel products. Preferential treatment was withdrawn for wire and wire mesh in 1989.

Advantages of an FTA

Countries have complementary industries that will benefit

Both U.S. and Mexican producers interviewed suggested that the possibilities for bilateral trade will increase if an FTA succeeds in eliminating tariffs. There was much discussion about national comparative advantage in specific products; the United States, for example, produces higher value products and wide sheet steels while Mexico produces lower value products, particularly slabs and minimill products. Producers and consultants on both sides of the border specified particular product niches that could be developed by the respective countries, including refining equipment, pressure vessels and wire and wire products (such as nails) for Mexican mills, and automotive and appliance sheet steels, and certain structurals for U.S. mills. A number of U.S. producers indicated that they are generally interested in competing in the Mexican market and view tariff reductions as merely offsetting other charges currently in place (e.g., the value added tax). Given the high cost of transportation for many steel products, however, most participants noted that proximate location will be a factor in developing such niches.

Foreign investment climate may improve

Mexican industry officials and U.S. consultants noted that an FTA will expand Mexico's domestic economy, thereby increasing demand for such steel products as sheet steel for automobiles and appliances or structurals and rebar for infrastructure improvements.[90] Such an expansion is seen as benefitting both U.S. and Mexican suppliers who are competitive producers of specific products. In addition, foreign investment in Mexico to service particular product niches may be encouraged, although Mexican participants noted that energy and capital costs are high in Mexico and natural resources (e.g., iron ore) are not of high quality. Representatives of U.S. associations noted the low labor costs in Mexico as being a drawing card for foreign investment,[91] but Mexican industry officials decried the low productivity of their workers and argued that this offsets much of the wage rate savings.

Certain Mexican exports may increase

One U.S. analyst also expressed the opinion that Mexican exports of steel slabs may increase. While noting that U.S. steelworkers may "scream bloody murder," such expanded Mexican opportunities and the specialization they imply may be useful as U.S. mills continue to rationalize their hot end facilities. The opinion was also expressed that Mexican exports of associated products such as fluorspar (used as a flux in steel production) and slab zinc will likely increase.[92] In addition, Mexican exports of direct reduced iron (DRI) could increase if current collaborative research efforts are fruitful.[93]

Disadvantages of an FTA

Mexican imports may affect U.S. prices

Many U.S. participants mentioned steel as one U.S. sector that would be disadvantaged in an FTA, but U.S. steel producers themselves identified only Mexican tubular products (especially seamless) and certain wire products (such as nails and fencing) as being directly competitive with U.S. products. However, participants noted that significant increases in Mexican steel exports could exert downward pressure on U.S. prices of competing goods.[94]

Mexico may provide U.S. access to suppliers from other nations

In addition, there is some concern among analysts and producers that liberalized trade between Mexico and the United States will provide a springboard for other countries to gain access to the U.S. market via the Mexican "back door." For example, foreign control of Mexico's largest steelworks, the parastatal AHMSA, may be allowed under the proposed privatization scheme unveiled by the Mexican Government; and, as one participant said, "in the worst-case scenario of no buyers, the loan for the facility is held by

[90] Several U.S. firms are reportedly considering relocating facilities to the Southwest in order to position themselves to be able to take advantage of increased Mexican demand. One of these involves a galvanizing facility; the other, a thin-strip minimill.

[91] Mexican minimill officials estimated their wage rates, including benefits, to be at 1/6 of those of comparable U.S. mills.

[92] Zinc is used in galvanizing lines to produce coated steel products. There are currently plans by U.S. companies to install 8 new galvanizing lines with a total of over 3 million tons of capacity by 1992.

[93] Currently the major private Mexican producer, Hylsa, is involved in a collaborative research effort with the American Iron and Steel Institute to study the possibilities for using (DRI), a Hylsa technology, in the steel making process.

[94] Written submission to the Commission on behalf of Chaparral Steel Company.

the Bank of Japan." Such potential third country investment is of concern to both Mexican and U.S. industry, as competition in the Mexican market from Japanese or European firms is likely to exacerbate oversupply in the Mexican domestic market and result in higher import penetration in the United States. Because of the possibilities of transshipment, clear rules of origin and transformation criteria are viewed as critical by both industries.

Mexican industry may suffer

From the Mexican perspective, industry officials are leery about reducing tariffs too quickly, citing 6 to 8 years as a minimum adjustment schedule for modernization of their industry. They cite the current situation as being one in which:

> Mexico is a net importer of steel, local demand already exceeds domestic capacity, the industry's productivity is low, and no one knows how the government's announced intention to sell Sidermex, the steel parastatal, is going to work out.

Officials are adamant that a rapid remission of tariffs could jeopardize the domestic industry, noting that "tariffs are our only protection." One Mexican industry official noted that "U.S. mills will definitely dump in a new market to establish themselves," and suggested that a dispute mechanism be incorporated in any FTA. This proposal was also put forward by other Mexican businessmen.

Textiles And Apparel

Background

Establishing free trade in textiles and apparel between the United States and Mexico was perceived by many of the participants as a highly sensitive issue. Mexico, with its low cost labor supply, is an important foreign supplier of textiles and apparel to the United States. Mexico was the sixth largest volume supplier of textiles and apparel to the United States in 1989. Mexico is also the largest supplier of apparel and other textile products under HTS item 9802.00.80.[95] Total import penetration in the U.S. textile and apparel market is relatively high, particularly in the apparel market, where the import to consumption ratio ranges between 30 and 40 percent.[96] However, Mexico accounted for only about 4 percent of total U.S. import volume in 1989.

Bilateral Trade, 1989

The following tabulation shows U.S. textile[97] and apparel[98] imports from and exports to Mexico, by major items, in 1989 (in millions of dollars, data from the Census Bureau):

Imports	*Value*
Textiles	204
Apparel	573
Total	777
Exports	*Value*
Textiles	455
Apparel	375
Total	831

A large part of U.S. imports of Mexican textile and apparel products consist of apparel and other textile products manufactured in maquiladora assembly operations. As shown above, apparel imports accounted for almost three-quarters of total U.S. imports of textiles and apparel from Mexico in 1989, and almost 90 percent of these apparel imports entered the United States under HTS item number 9802.00.80. A large portion of U.S. textile and apparel exports to Mexico reflect shipments of U.S.-cut apparel and other textile product parts sent to Mexico for assembly. However, since Mexico liberalized textile and apparel trade in 1988, U.S. exports of finished textiles and apparel have reportedly increased.

A few of the participants perceived Mexico to be considerably more open to U.S. textile and apparel products than the United States is to Mexican textiles and apparel. Mexico has reportedly removed almost all major nontariff trade barriers, including special import licenses on imports of textiles and apparel. It has also lowered import duties on these products to 5 to 10 percent ad valorem. The average U.S. duty on imports of textiles and apparel is estimated to be 16 percent ad valorem.

The United States has quantitative restraints on imports from Mexico, although these restraints have been liberalized recently. Specifically, U.S. imports of textiles and apparel made from wool, manmade fibers, cotton, ramie, linen, and silk blends are subject to a bilateral agreement negotiated with Mexico under the auspices of the Multifiber Arrangement (MFA). The current

[95] Under HTS item 9802.00.80, formerly known as TSUS item 807.00, imported articles assembled wholly or partly with U.S. fabricated components are assessed duty on the total value of the article less the value of the U.S. components (i.e., the duty is essentially assessed on the value added abroad).

[96] The import to consumption ratio for apparel is calculated using the 1989 value of U.S. producers' shipments, imports, and exports classified in the Bureau of Census Standard Industrial Classification (SIC) 23, Apparel and Other Textile Products.

[97] Textiles is defined to include fibers, fabrics, carpets and other floor coverings, and other made up textile articles, such as bedding, tablecloths, towels, etc.

[98] Apparel is defined as clothing made of wool, manmade fibers, cotton, ramie, linen, and silk as well as rubber, plastic, leather, and fur and includes gloves and all types of headwear.

agreement with Mexico became effective January 1, 1988, and considerably liberalized trade in general with Mexico by increasing the quotas in several major categories. At the same time the agreement set aside a significant portion (from 50 to 90 percent) of the quotas under a "special regime" for articles assembled in Mexico from U.S.-made and cut fabrics. Thus, the agreement permitted much greater access to the U.S. market for all Mexican assembled apparel while providing under the special regime incentive for increased use of U.S.-made and cut fabric. The agreement was further liberalized in an amendment effective January 1, 1990. The amendment not only further liberalized access for products made from U.S.-made and cut fabric, but also for Mexican textiles and apparel. The amendment also established specific "special regime" limits and "normal" limits in lieu of enlarged quotas accounting for both.

Advantages of a sector accord for textiles and apparel

A few participants expressed a preference for a sectoral agreement as an alternative to an FTA[99]. They felt that a sector accord could be negotiated to test the waters as a prelude to an FTA, especially for such sensitive areas as textiles. A U.S. trade consultant said that the U.S. textile industry is particularly import sensitive, and requires that the current bilateral textile agreement be maintained and allowed to expire naturally over time. He suggested that this might minimize some of the objections of the U.S. textile industry to a United States-Mexican FTA.

Advantages of an FTA to the textile and apparel industries

The following summarizes the major advantages of an FTA on U.S. and Mexican textile and apparel industries as described by participants during the course of the study.

Would relocate some Far Eastern production to Mexico and expand Mexico's market for U.S. products

A few of the participants felt that an FTA with Mexico would be advantageous to the U.S. textile and apparel industries. They suggested that an FTA would stimulate a movement of textile and apparel production away from the major Far Eastern suppliers to Mexico, which would in turn create U.S. jobs, especially along the U.S.-Mexico border. The Mexicans would use U.S. inputs, whereas, these participants believed, the Asian producers would not. A former U.S. trade negotiator stated that there may even be a gain in U.S. textile employment if an FTA moves assembly operations from Asia to Mexico. Another participant suggested that coproduction of apparel in Mexico and the United States will make this U.S. industry more competitive worldwide. A few participants stated that increased production of textiles and apparel in Mexico also will help create a larger market for U.S.-made products as Mexico's economy grows.

Would permit further specialization by U.S. and Mexican producers

A number of businessmen located along the United States-Mexico border stated that, in general, an FTA would benefit both the U.S. and the Mexican industries. One U.S. businessman reported that investors from Japan and Taiwan are interested in producing cotton yarn and fabrics on the U.S. side and then assembling finished apparel from these items on the Mexican side of the border. He noted however, that these potential investors are reluctant to invest in such operations because of U.S. quotas. An FTA that eliminated quotas on apparel is expected to stimulate this type of foreign investment. Other participants believed the U.S. side would benefit with an increase in warehousing, packaging, and cutting operations.

Would eliminate U.S. quantitative restrictions

Many of the participants who commented on the effect of an FTA on textile trade stated that the major advantage of an FTA to the Mexican textile and apparel industries would be the elimination of U.S. quantitative restraints. The advantages of eliminating these quantitative restraints would be to help Mexico earn much needed foreign exchange and to increase domestic employment by permitting them to sell products that are currently subject to U.S. quotas in order to stimulate foreign investment in the labor intensive apparel and textile product industries.

A U.S.-Mexican trade expert predicted that the newer Mexican companies will benefit more from an FTA than the existing maquiladora apparel assembly plants. She speculated that the apparel assembly plants could be the first victims of an FTA, but may remain attractive because of their well-developed infrastructure, their experienced work force, and continued Mexican tax benefits.

Would stimulate foreign investment

Several Mexican participants noted that an FTA would encourage foreign investment in

[99] Throughout the interviews, many of the participants who referred to the textile industry used the term "textiles" to include the apparel industry as well as the textile industry. The manufacture of apparel is highly labor intensive, while the manufacture of textile fibers, yarns, and fabrics is more capital intensive. Mexico's low cost labor supply renders production of apparel very competitive. An FTA may affect the U.S. textile industry if it eliminates the present bilateral textile agreement since this agreement encourages the use of U.S. made fabrics under the special regime program. An FTA may increase the opportunities for Mexican suppliers.

Mexico's textile industry, which is necessary to automate or computerize Mexico's textile industry. They reported that in the last 3 months, two of Mexico's six existing denim factories have closed because they did not automate. In their view, automation will displace labor, but, they said, it is necessary to compete. They stated, "An FTA is bitter medicine, but one that is needed."

Disadvantages of an FTA to the textile and apparel industries

The following summarizes the major disadvantages of an FTA on U.S. and Mexican textile and apparel industries as described by participants during the course of the study.

Would result in loss of jobs in the U.S. sector

Many of the participants commenting on the effect of an FTA on the U.S. textile and apparel industries felt that these sectors would be losers in an FTA. They suggested that an FTA will have a negative impact on U.S. industries that are labor intensive, mature, or currently protected, like the textile industry, and that the FTA may actually result in the United States exporting more plants and importing more products. A U.S. businessman stated that unlike Canada, Mexico is clearly more competitive in apparel than the United States and could be considered a real threat. He suggested the exclusion of textiles and apparel from the scope of an FTA.

Representatives of U.S. textile and apparel labor unions voiced strong opposition to opening up trade in textiles and apparel through an FTA with Mexico. A representative for a U.S. textile workers union stated: "An unlimited FTA would sink U.S. workers who would not be able to swim against the Mexican imports produced with cheap labor."

He stated that an FTA with Mexico will result in an acceleration of the loss of jobs of U.S. textile workers and other low skilled U.S. workers, which actually began since the past decade. He disagreed that an FTA will open up a Mexican market of 85 million people, saying that a more realistic figure would be 8 million people with sufficient income to consume U.S. products. He also stated that an FTA with Mexico would be very difficult to police, citing past experience with transshipment and fraud under the United States-Israel FTA. These difficulties would be even more prevalent with Mexico, he believed. According to a statement submitted by a U.S. apparel workers' union:

> Free Trade Agreements with such underdeveloped countries as Mexico would severely jeopardize U.S. workers in apparel and other manufacturing sectors by exporting their jobs. Agreements with countries where the wage level is only a tiny fraction of our own invites disaster for U.S. workers . . . Based on data published by the U.S. Department of Commerce, [this union's] Research Department estimates that hourly compensation (including all fringes) in the apparel industry in Mexico currently averages $0.34. This figure is less than 5 percent of the compensation level in the U.S. apparel industry.[100]

Representatives from both unions indicated that an FTA with Mexico should be structured to give benefits to Mexico only if benefits are taken away from the Far Eastern suppliers. An FTA "must be a global sharing of the burden."

A few participants had suggestions to minimize the negative effects an FTA could have on U.S. textile and apparel workers. A labor representative suggested, for example, that the FTA could include provisions to compel U.S. companies to continue employing a certain percentage of their U.S. workers.

Would foster exploitation of Mexican workers

Representatives of U.S. textile and apparel labor unions and a U.S. businessman expressed concern for Mexican textile and apparel workers. They stated that the FTA with Mexico will likely lack "humane" values, a quality which is characteristic of the U.S. way of life. Such requirements as decent wages, OSHA worker safety protections, and environmental requirements, should be included in the agreement for Mexican workers, they said.

[100] Written submission by Jay Mazur, President, International Ladies' Garment Workers' Union, AFL-CIO, to the Commission, p. 1.

APPENDIX A
LETTER OF REQUEST FROM HOUSE COMMITTEE ON WAYS AND MEANS

Office of Econ

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

WASHINGTON, DC 20515

OFFICE OF THE CHAIRMAN

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October 12, 1989

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OFFICE OF ...
U.S. INTL. TRADE ...

The Honorable Anne E. Brunsdale
Chairman
U.S. International Trade Commission
500 E Street, S.W.
Washington, D.C. 20436

Dear Madam Chairman:

In recent years, the Government of Mexico has undertaken a number of bold steps which have moved Mexico in the direction of greater liberalization of its international trade and investment regime. Mexico has joined the General Agreement on Tariffs and Trade (GATT), entered into a trade and investment framework agreement with the United States, cut tariffs, and proposed other measures designed to open the Mexican market further to foreign exporters and investors.

The steps being taken by the Mexican Government under the leadership of President Carlos Salinas de Gortari are most welcome and have important implications, not just for Mexico but for the United States as well. Given the already strong trade and investment ties between the United States and Mexico, the United States has a great interest in seeing the economic reforms in that country succeed. It would certainly be our hope that these reforms will help bring about a healthier, more competitive economy in Mexico.

It is important that U.S. business leaders and policymakers have a better understanding of the scope of the changes being undertaken by the Mexican leadership and their implications for future U.S.-Mexican economic relations. Accordingly, on behalf of the Committee on Ways and Means, I am writing to request that you conduct a fact-finding study, under section 332(g) of the Tariff Act of 1930, of Mexico's recent trade and investment reforms; and that you also explore experts' views on prospects for future U.S.-Mexican trade relations.

We would like the study to provide a comprehensive review of Mexico's recent trade and investment liberalization measures (including GATT membership) and describe, to the extent possible, their implications for U.S. exporters and investors. Some discussion of Mexico's role in and positions taken in the Uruguay Round of multilateral trade negotiations now underway also would be useful. We would appreciate receiving this phase of the study within six months of receipt of this letter.

A second phase of the study should examine experts' views on prospects for future U.S.-Mexican trade relations. This survey should explore such proposals as a free trade area; an enhanced dispute settlement mechanism; possible sectorial approaches; the recently established Framework of Understanding; and other options for enhanced bilateral trade relations. The Committee hopes to receive this phase of the study within twelve months of receipt of this letter.

Thank you for your cooperation. Please let me know if you have any questions about the proposed study.

Sincerely yours,

Dan Rostenkowski
Chairman

cc: The Honorable Bill Archer

APPENDIX B
FEDERAL REGISTER NOTICES

[Investigation No. 332-282]

Review of Mexico's Recent Trade and Investment Liberalization Measures and Prospects for Future U.S.-Mexican Trade Relations

AGENCY: United States International Trade Commission.

ACTION: Institution of investigation, scheduling of hearing, and request for comments.

EFFECTIVE DATE: November 8, 1989.

FOR FURTHER INFORMATION CONTACT: Constance A. Hamilton (202-252-1263), Trade Reports Division, Office of Economics, U.S. International Trade Commission, Washington, DC 20436.

Background

The Commission instituted investigation No. 332-282 following receipt of a letter on October 18, 1989 from the House Committee on Ways and Means requesting the Commission to conduct a two-phase investigation under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) of Mexico's recent trade and investment reforms. As requested by the Committee, phase I of the investigation will provide a comprehensive review of recent trade and investment liberalization measures undertaken by Mexico and, to the extent possible, a description of the implications for U.S. exporters and investors. Some discussion of Mexico's role in and positions taken in the Uruguay Round of multilateral trade negotiations will also be provided.

Phase II will provide a summary of the views of recognized authorities on prospects for future U.S.-Mexican trade relations. As requested by the Committee, this survey will explore such proposals as a free trade area, an enhanced dispute settlement mechanism, possible sectorial approaches, the recently established Framework of Understanding, and other options for enhanced bilateral trade relations.

Phase I of the investigation will be submitted to the Committee no later than six months after receipt of the letter; phase II will be submitted to the Committee no later than 6 months after completion of phase I.

Public Hearing

A public hearing in connection with phase I of this investigation will be held in the Commission Hearing Room, 500 E Street, SW., Washington, DC 20436, beginning at 9:30 a.m. on December 4, 1989. All persons have the right to appear by counsel or in person, to present information, and to be heard. Requests to appear at the public hearing should be filed with the Secretary, United States International Commission, 500 E Street, SW, Washington, DC 20436, no later than noon, November 27, 1989. The deadline for filing prehearing briefs (original and 14 copies) is November 27, 1989. Post hearing briefs are due on December 18, 1989. Notice of a separate public hearing for phase II of this investigation will be announced in the Federal Register at a later date.

Written Submissions

Interested persons are invited to submit written statements concerning the matters to be addressed in the phase I report. Commercial or financial information that a party desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidential Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of § 201.6 of the Commission's Rules of Practice and Procedure (19 CFR 201.6). All written submissions, except for confidential business information, will be made available for inspection by interested persons in the Office of the Secretary to the Commission. To be assured of consideration by the Commission, written statements relating to the Commission's report should be submitted at the earliest practical date and should be received no later than January 8, 1990. All submissions should be addressed to the Secretary to the Commission at the Commission's office in Washington, DC.

By Order of the Commission.

Issued: November 8, 1989.

Kenneth R. Mason,

Secretary.

[FR Doc. 89-26980 Filed 11-15-89; 8:45 am]

BILLING CODE 7020-02-M

[Investigation No. 332-282]

Review of Mexico's Recent Trade and Investment Liberalization Measures Phase II: Prospects for Future U.S.-Mexican Trade Relations

AGENCY: United States International Trade Commission.

ACTION: Notice of off-site hearing.

EFFECTIVE DATES: February 8, 1990.

FOR FURTHER INFORMATION CONTACT: Constance A. Hamilton (202-252-1263), Trade Reports Division, Office of Economics, U.S. International Trade Commission, Washington, DC 20436.

Background

Phase II of investigation no. 332-282 will provide a summary of the views of recognized authorities (for example, government officials, scholars, private sector businessmen, and others) on possibilities for the future direction of the U.S.-Mexican bilateral relationship. Such possibilities might include a free trade area, an enhanced dispute settlement mechanism, sectoral approaches, and other options for enhanced bilateral relations.

Public Hearing

A public hearing in connection with phase II of this investigation will be held in Tucson, Arizona on May 8, 1990 at a time and place to be announced at a later date. All persons have the right to appear by counsel or in person, to present information, and to be heard. Requests to appear at the public hearing should be filed with the Secretary, United States International Trade Commission, 500 E Street, SW., Washington, DC 20436, no later than noon, April 20, 1990. The deadline for filing prehearing briefs (original and 14 copies) is April 30, 1990. Post-hearing briefs are due on May 22, 1990.

Written Submissions

Interested persons are invited to submit written statements concerning the matters to be addressed in the phase II report. Commercial or financial information that a party desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidential Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of §201.6 of the Commission's *Rules of Practice and Procedure* (19 CFR 201.6). All written submissions, except for confidential business information, will be made available for inspection to interested persons by the Office of the Secretary to the Commission. To be assured of consideration by the Commission, written statements relating to the Commission's report should be submitted at the earliest possible date and should be received no later than July 16, 1990. All submissions should be addressed to the Secretary to the Commission at the Commission's office in Washington, DC.

By Order of the Commission.

Issued: March 8, 1990.

Kenneth R. Mason,

Secretary.

[FR Doc. 90-5805 Filed 3-13-90; 8:45 am]

BILLING CODE 7020-02-M

INTERNATIONAL TRADE COMMISSION

[Investigation No. 332-282]

Review of Mexico's Recent Trade and Investment Liberalization Measures Phase II: Prospects for Future United States-Mexican Trade Relations

AGENCY: United States International Trade Commission.

ACTION: Notice of additional public hearing to be held in New Mexico.

EFFECTIVE DATE: February 8, 1990.

FOR FURTHER INFORMATION CONTACT: Constance A. Hamilton (202-252-1263), Trade Reports Division, Office of Economics, U.S. International Trade Commission, Washington, DC 20436.

BACKGROUND: Phase II of investigation no. 332-282 will provide a summary of the views of recognized authorities (for example, government officials, scholars, private sector businessmen, and others) on possibilities for the future direction of the U.S.-Mexican bilateral relationship. Such possibilities might include a free trade area, an enhanced dispute settlement mechanism, sectoral approaches, and other options for enhanced bilateral relations.

PUBLIC HEARING: A public hearing in connection with phase II of this investigation will be held on May 8, 1990 beginning at 9:30 a.m., at the Holiday Inn Las Cruces, located at 201 East University Blvd., (corner of University and Main), Las Cruces, New Mexico 88001, (telephone 505-526-4411). All persons have the right to appear by counsel or in person, to present information, and to be heard. Requests to appear at the public hearing should be filed with the Secretary, United States International Trade Commission, 500 E Street SW., Washington, DC 20436, no later than noon, April 30, 1990. The deadline for filing prehearing briefs (original and 14 copies) is April 30, 1990. Post hearing briefs are due on May 22, 1990.

WRITTEN SUBMISSIONS: Interested persons are invited to submit written statements concerning the matters to be addressed in the phase II report. Commercial or financial information that a party desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidential Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of § 201.6 of the Commission's *Rules of Practice and Procedure* (19 CFR 201.6). All written submissions, except for confidential business information, will be made available for inspection to interested persons by the Office of the Secretary to the Commission. To be assured of consideration by the Commission, written statements relating to the Commission's report should be submitted at the earliest possible date and should be received no later than July 16, 1990. All submissions should be addressed to the Secretary to the Commission at the Commission's office in Washington, DC.

By order of the Commission.

Issued: April 20, 1990.

Kenneth R. Mason,

Secretary.

[FR Doc. 90-9507 Filed 4-23-90; 1:29 pm]

BILLING CODE 7020-02-M

INTERNATIONAL TRADE COMMISSION

[Investigation No. 332-282]

Review of Mexico's Recent Trade and Investment Liberalization Measures Phase II: Prospects for Future U.S.-Mexican Trade Relations

AGENCY: United States International Commission.

ACTION: Notice of additional public hearing to be held in McAllen, TX

EFFECTIVE DATE: February 6, 1990.

FOR FURTHER INFORMATION CONTACT: Constance A. Hamilton (202-252-1263), Trade Reports Division, Office of Economics, U.S. International Trade Commission, Washington, DC 20436

Background

Phase II of investigation No. 332-282 will provide a summary of the views of recognized authorities (for example, government officials, scholars, private sector businessmen, and others) on possibilities for the future direction of the U.S.-Mexican bilateral relationship. Such possibilities might include a free trade area, an enhanced dispute settlement mechanism, sectoral approaches, and other options for enhanced bilateral relations. Public hearings were previously held in Las Cruces, New Mexico, on May 5, 1990, and in Tucson, Arizona, on May 8, 1990. The original notice of investigation was published in the Federal Register of November 16, 1989 (54 FR 220).

Public Hearing

An additional public hearing in connection with phase II of this investigation will be held on July 16, 1990 beginning at 9:30 a.m., at the Fairway Resort, South 10th Street at Wichita Avenue, McAllen, Texas. All persons have the right to appear by counsel or in person, to present information, and to be heard. Requests to appear at the public hearing should be filed with the Secretary, United States International Trade Commission, 500 E Street, SW., Washington, DC 20436, no later than noon, July 6, 1990. The deadline for filing prehearing briefs (original and 14 copies) is July 6, 1990.

Written Submissions

Interested persons are invited to submit written statements concerning the matters to be addressed in the phase II report. Commercial or financial information that a party desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidential Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of § 201.6 of the Commission's *Rules of Practice and Procedure* (19 CFR 201.6). All written submissions, except for confidential business information, will be made available for inspection to interested persons by the Office of the Secretary to the Commission. To be assured of consideration by the Commission, written statements relating to the Commission's report should be submitted at the earliest possible date and should be received no later than July 28, 1990. All submissions should be addressed to the Secretary to the Commission at the Commission's office in Washington, DC. Hearing-impaired individuals are advised that information on this matter may be obtained by contacting the Commission's TDD terminal on (202) 252-1810.

By order of the Commission.

Issued: June 28, 1990.

Kenneth R. Mason,

Secretary.

[FR Doc. 90-15258 Filed 6-28-90; 8:45 am]

BILLING CODE 7020-02-M

APPENDIX C
LIST OF SUBMISSIONS AND HEARING PARTICIPANTS

SUBMISSIONS FOR THE RECORD
332-282

Mark Affleck
President, California Avocado Commission

John Barfield
President, Sunbelt Landbridge Association

Michael J. Blum
President, First City Bancorporation of Texas

Ann Bourland
Prissa

James Brian
President, Smeltzer Orchard Co.

William C. Bourland
Coordinator, U.S.-Mexico Project, Mexican American Studies and Research Center, University of Arizona

Rudy Bowles

J. Patrick Boyle
President and C.E.O., American Meat Institute

Eileen Bradner, Charles Verrill, Jr.
Counsel, Chaparral Steel Company

William E. Cline
International Programs, City of Tucson

Juan Manuel Correa
Union Pacific Railroad

Andrea Durbin
Conservation Representative, Friends of the Earth

Ralph Durden
Chairman, Long-Range Transportation Task Force, Corpus Christi Chamber of Commerce

James Ebersole
Chairman, Border Trade Alliance

Jinger Eberspacher
Director, Leather Research Institute

Paul Edwards
Director of Planning and Economic Development, Middle Rio Grande Development Council

Joe Fahey, Sergio Lopez
President and Secretary-Treasurer Local 912, General Teamsters, Packers, Food Processors and Warehousemen Union

Frank Fenton
Senior Vice President Public Policy, American Iron and Steel Institute

Lucrecia Fernandez-Serrano
Assistant Vice President and Special Counsel, Chubb & Son, Inc.

Robert Fernandez
Bob Fernandez & Sons, Inc.

John Filose
Vice President Sales and Marketing, Ocean Garden Products, Inc.

Harry Foster
Secretary-Manager, Michigan Asparagus Growers Division, Michigan Agricultural Cooperative Marketing Association

Nancy Fuller-Jacobs
Grijalva & Fuller-Jacobs, Attorneys-At-Law

Lucia Munoz Hayakawa
International Trade Council of New Mexico

Robert Herzstein
Councsel, U.S. Council of the Mexico-U.S. Business Committee

Theda Vanden Heuvel
Joe Vanden Heuvel & Son

Raul Rangel Hinojosa
Vice President for International Affairs, VITRO

John Himmelberg
Washington Counsel, Florida Tomato Exchange

John Zelmini, Paul Fanelli
President and Industrial Relations Manager, Patterson Frozen Foods, Inc.

P.A. Jacobs
President, Market Strategies International

David P. Jankofsky
Executive Director, Arizona-Mexico Commission

William F. Joffroy Jr.
William F. Joffroy, Inc.

Noe Kenig
Corporate Vice President and Director, Latin American Operations

Representative Jim Kolbe
5th District of Arizona

Kenneth O. Lilley
President, Association de Maquiladoras de Sonora

Leonard K. Lobred
International Trade Consultant

Don Lound
Secretary-Treasurer, Cheever's, Inc.

Richard McDonald
Executive Vice President, Texas Cattle Feeders Association

Joseph A. McKinney
International Economist, Regional Studies Center, Baylor University

Bobby F. McKown
Executive Vice President, Florida Citrus Mutual on behalf of California Citrus Mutual, Florida Citrus Mutual, Citrus Grower Associates, Florida Farm Bureau Federation, Indian River Citrus League, Florida Citrus Packers, Gulf Citrus Growers Association, Florida Department of Agriculture and Consumer Services

Dr. Donald A. Michie
Director, Institute for Manufacturing and Materials Management

Christopher G. Moyer
Counsel, American Mushroom Institute

Representative Solomon P. Ortiz
27th District, Texas

Ronald E. Pettis
Gray, Cary, Ames & Frye

G. Brent Poirier
Attorney at Law

B.J. Porter
Executive Vice President, New Mexico Farm and Livestock Bureau

David Porter
Chairman/Founder, Porter International, Inc.

Clark W. Reynolds
Director, Americas Program, Stanford University

Oscar A. Rios
Vice-Mayor and Council Member, City of Watsonville, California

Francisco X. Rivas
Pargne Industrial Mexicali, S.A. de C.V.

Arthur L. Silvers, Vera K. Paulakovic
Division of Economic and Business Research, College of Business and Public Administration, University of Arizona

Darwin E. Stolte
President, U.S. Feed Grains Council

S.M. True
President, Texas Farm Bureau

Diana Tubbs
Tubbs Orchards

Pamela Walther
Counsel, California Avocado Commission

S.F. Vale
President, Mexico-Texas Bridge Owners Association

Lorraine Washington
City Clerk for City Council of Watsonville, California

Lorin Weisenfeld
Multilateral Investment Guarantee Agency

Christopher Whalen
Senior Vice President, The Whalen Company, Inc.

Neil C. Whiteley-Ross
Associate Vice President, San Diego Economic Development Corporation

Lorenzo Zambrano
CEO, CEMEX

David L. Zollinger
Chairman, National Association of Growers and Processors for Fair Trade

CALENDAR FOR PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

Subject	:	REVIEW OF MEXICO'S RECENT TRADE AND INVESTMENT LIBERALIZATION MEASURES, PHASE II: PROSPECTS FOR FUTURE U.S.-MEXICAN TRADE RELATIONS
Inv. No.	:	332-282
Date and Time	:	May 5, 1990 - 9:30 a.m.

Sessions were held in connection with the investigation at Holiday Inn Las Cruces, 201 East University Boulevard, (corner of University and Main), Las Cruces, New Mexico 88001.

CONGRESSIONAL APPEARANCE:

Honorable Pete V. Domenici, U.S. Senator, State of New Mexico

Honorable Jeff Bingaman, U. S. Senator, State of New Mexico
(Represented by Ricardo Zunigia, Project Specialist, Senator's State Office)

Honorable Bill Richardson, U.S. Congressman, State of New Mexico,
(Represented by Andrew Dunigan, Ranchowner and Member, NM Amigos)

Honorable Joe Skeen, U.S. Congressman, State of New Mexico,
(Represented by Patricia Ehler, District Representative, Second District)

GOVERNMENT APPEARANCE:

James C. Piatt, Regional Commissioner, Southwest Region,
U.S. Customs Service
Houston, TX

Edward Avalos, Marketing Specialist, New Mexico Department of Agriculture

WITNESS AND ORGANIZATION:	TIME CONSTRAINTS

Roberto M. Gamboa, Consul General of Mexico

Dr. Donald A. Michie, Director, Institute for Manufacturing and Materials Management, University of Texas at El Paso

Jim Coleman, Executive Director, Greater Las Cruces Economic Development Council

New Mexico State University
Las Cruces, NM

Kevin Boberg, Director, Center for Business Research and Services (Border Research Institute)

Linda Riley, Associate Professor of Marketing Center for Business Research and Services,

Patricia Sullivan, Border Research Institute

Bob Baesler, Herdsman, Diamond A. Cattle Company
Roswell, NM

Roderick Waller, President, International Trade Council of New Mexico; Chairman, International Trade Committee of Albuquerque; Chamber of Commerce, Hispano Chamber; President, Southwest International Technology and Trading Co. Ltd.

William L. Mitchell, Vice President, Marketing, Grupo Bermudez

Michael P. Clute, Local Businessman and Member of Las Cruces Economic Development Council

Pete Araujo
ABACO Custom House Broker, Inc.
El Paso, TX

WITNESS AND ORGANIZATION:	TIME CONSTRAINTS
William McIlhaney, President New Mexico Farm and Livestock Association	
G. Brent Poirier, Attorney at Law, Las Cruces, NM (Immigration Law/International Law)	

CALENDAR FOR PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

Subject	:	REVIEW OF MEXICO'S RECENT TRADE AND INVESTMENT LIBERALIZATION MEASURES, PHASE II: PROSPECTS FOR FUTURE U.S.-MEXICAN TRADE RELATIONS
Inv. No.	:	332-282
Date and Time	:	May 8, 1990 - 9:30 a.m.

Sessions were held in connection with the investigation at the Doubletree Hotel (Randolph Park), 445 South Alvernon Way, Tucson, Arizona 85711.

CONGRESSIONAL APPEARANCE:

Honorable Jim Kolbe, U.S. Congressman, State of Arizona

Barry Dill, Southern Arizona Director, Office of U.S. Senator Dennis DeConcini, State of Arizona

GOVERNMENT APPEARANCE:

Office of the Governor, State of Arizona

David P. Jankofsky, Executive Director, Arizona-Mexico Commission,

Webb Todd, President, Arizona-Mexico Commission

William E. Cline, Director of International Programs
City of Tucson, Office of Economic Development,
Tucson, Arizona

WITNESS AND ORGANIZATION:

PANEL:

Paul Fanelli, Industrial Relations Manager,
Patterson Frozen Foods, Inc.
Patterson, California

David L. Zollinger, Chairman and Executive Vice
President, National Association of Growers and
Processors for Fair Trade
Stockton, CA

PANEL:

James A. Ebersole, Chairman, Border Trade Alliance,
"EBA", and Director, International Trade,
Brownsville Economic Development Council
Brownsville, TX

William F. Joffroy, Joffroy Customs Brokers, Inc.
Nogales Foreign Trade Zone, Nogales, AZ

Bob Fernandez
Bob Fernandez & Sons, Inc.
Douglas, AZ

PANEL:

Francisco Carrada-Bravo, Professor,
International Finance and Trade Department,
World Business,
Thunderbird American Graduate School of
International Management
Glendale, AZ

WITNESS AND ORGANIZATION:

William C. Bourland, Coordinator,
U.S.-Mexico Project, Mexican American Studies
& Research Center

Arthur L. Silvers, Director, Economic and
Business Research

PANEL:
Local 912, General Teamsters, Packers,
Food Processors and Warehousemen Union
Watsonville, CA

Joe Fahey, President

Sergio Lopez, Secretary-Treasurer

Cannery Warehousemen, Food Processors, Drivers and
Helpers Local Union #748

Ronald Ashlock, Secretary-Treasurer of Teamsters
Local 748

John Blake, Teamsters Interntional Representative

PANEL:
Shearman & Sterling
Washington, D.C.
On behalf of

U.S. Council of the Mexico-U.S. Business Committee

Robert Herzstein)--OF COUNSEL

Mexican Business Council for International Affairs
(CEMAI) (Mexican Counterpart to U.S. Council of
Mexico-U.S. Business Committee)

Robert Herzstein

WITNESS AND ORGANIZATION:

PANEL:

Kenneth O. Lilley, President
Association de Maquiladoras de Sonora
Nogales, AZ

Salvador Gonzalez, Owner, S.J. & Associates
(Medical Laboratory Equipment)
Tucson, AZ

Panel:

Wayne Andersen, Executive Vice President,
International Banking Group
CoBANK Cooperatives
Denver, CO

David W. Ogilvy
Valley National Bank of Arizona

CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

Subject	:	REVIEW OF MEXICO'S RECENT TRADE AND INVESTMENT LIBERALIZATION MEASURES, PHASE II: PROSPECTS FOR FUTURE U.S.-MEXICAN TRADE RELATIONS
Inv. No.	:	332-282
Date and Time	:	July 16, 1990 - 9:30 a.m.

Sessions were held in connection with the investigation at the Fairway Resort, South 10th Street at Wichita Avenue, McAllen, Texas.

CONGRESSIONAL APPEARANCES:

Honorable Kika de la Garza, U.S. Congressman, 15th District of Texas, and Chairman, House Committee on Agriculture

Gay T. Erwin, Director, Office of Senator Lloyd Bentsen, State of Texas

GOVERNMENT APPEARANCE:

Honorable Othal Brand, Mayor of McAllen, State of Texas

McAllen Economic Development Corporation, City of McAllen, Texas

R. E. "Dick" Friedrichs, Chairman of the Board, and Owner of R. E. Friedrichs Co.

Michael Habig, President, Maquila Association, Reynosa, Mexico

WITNESS AND ORGANIZATION:

Texas Citrus Mutual
McAllen, Texas

Ray Prewett, Executive Vice President, Texas Citrus Mutual and Texas Vegetable Association

WITNESS AND ORGANIZATION:

Petroleum Equipment Suppliers Association (PESA)
Houston, Texas

Gary D. Nicholson, LTV Energy Products Company,
Garland, Texas

Mexico-Texas Bridge Owners Association
Mission, Texas

Sam Vale, President

American Chamber of Commerce of Mexico,
Mexico City, Mexico

Dr. Kenneth Shwedel, Member, Board of Directors, and
Chairman, Agribusiness Development Committee

Miguel Aleman Foundation
Mexico City, Mexico

Alfonso Garcia Cacho, Executive Director

Chamber of Commerce
Corpus Christi, Texas

Ralph Durden, Chairman, Long-range
Transportation Task Force

Baylor University
Waco, Texas

Joseph A. McKinney, Professor of Economics and
Director of Researach, Region North America Project

WITNESS AND ORGANIZATION:

Middle Rio Grande Development Council
Carrizo Springs, Texas

Rudy Bowles, President

Texas Corn Producers Board
Dimmitt, Texas

Carl L. King, Executive Director

Elbert Harp

National Grain Sorghum Producers Association
Abernathy, Texas

Jack Eberspacher, Executive Director

The Council for South Texas Economic Progress (COSTEP)
McAllen, Texas

William L. Davis, President

Texas Tech University
Lubbock, Texas

Jinger Eberspacher, Ph.D., Director, Leather Research Institute
(Did not appear, but testimony was entered into the record by Jack Eberspacher, above.)

Union Pacific Railroad Company
Omaha, Nebraska

Juan Manuel Correa, Executive Representative in Mexico

WITNESS AND ORGANIZATION:

Brownsville Economic Development Council
Brownsville, Texas

Mike Hale, Executive Director

Allen Smith & Associates

Allen Smith

The Council for South Texas Economic Progress (COSTEP)
McAllen, Texas

Peter P. Pranis, Jr., Vice President

APPENDIX D
BACKGROUND INFORMATION ON U.S.-MEXICAN TRADE

United States–Mexican economic relations have dramatically improved in the last few years. This can be attributed in large measure to the Mexican Government's determination to open Mexico's highly protected economy to the global marketplace, and to its recent program of economic reforms. Accession to the General Agreement on Tariffs and Trade (GATT) in 1986 marked a watershed in Mexico's international economic policy. As noted in the Phase I report, since joining the GATT, Mexico has reduced many of its trade barriers and instituted new foreign investment regulations that represent a dramatic departure from its earlier restrictions on foreign investment.

Also as noted in the Phase I report, the repercussions of Mexico's 1982 debt crisis stifled the country's economic growth in the following years. There was no overall expansion between 1982 and 1988 as the Government followed austerity programs to meet its foreign debt obligations. Real per capita income fell by more than 15 percent during those years. Adoption of the "Economic Solidarity Pact" in December 1987 was an important part of the Mexican Government's strategy for controlling the country's rampant inflation. Successful in reducing inflation from its peak of about 200 percent at the end of 1987 to an average yearly rate of less than 20 percent in 1989, the Pact has been extended until the end of 1990.[1]

In the decades up to the mid-1980s, the Government played an increasingly interventionist role in the Mexican economy. Starting in 1985, however, the Mexican authorities began to scale down the Government's holdings and deemphasized its role in the state-owned ("parastatal") sector. Subsequently, the "privatization" of nonstrategic state-owned enterprises became part of the Government's 1987 economic reform program. In November 1989, Mexican officials also announced a sweeping regulatory revision. The Government made rapid progress in its endeavors towards establishing a market economy of free enterprise with rapidly diminishing involvement by the state in its capacity of owner and of regulator.[2]

Trade and exchange rates

Over 70 percent of Mexico's foreign trade is conducted with the United States. Given Mexico's trade dependence on the United States, the peso/dollar rate is of critical importance for the country's export competitiveness.

The relationship between these two currencies has undergone a dramatic change since 1983. As the tabulation below shows, the Mexican currency depreciated from a free market rate of 150.3 pesos per U.S. dollar in 1983, to 2,892 pesos per dollar on August 16, 1990.[3]

The peso's depreciation accelerated sharply in 1987 when the Mexican Government decided to stop supporting the currency. The withdrawal of support also devalued the peso in real terms, boosting exports but accelerating inflation. A near 200-percent rate of inflation led to the adoption of the Economic Solidarity Pact at the end of the year. It also resulted in a freeze of the exchange rate in February 1988, which amounted to the

Pesos per U.S. dollar	*Yearly average*[4] *Controlled rate*	*Free market rate*
1983	120.1	150.3
1984	167.8	185.2
1985	256.9	310.2
1986	611.8	637.4
1987	1,378.2	1,405.8
1988	2,273.1	2,288.3
1989	2,461.5	(N/A)
1990 (Aug.)	2,851.0	2,892.0

[1] For more information on the Pact, see Phase 1 Report, ch. 1.

[2] For a detailed account of Mexico's deregulation and privatization programs, see phase I Report, ch. 3.

[3] Stated in terms of the "free market rate." Mexico features a triple exchange system. The free market rate is offered in exchange houses, while a nearly identical "official free rate" is determined by transactions of commercial banks. The "controlled rate" applies to most exports and imports and debt payments.

[4] IMF, *International Financial Statistics* and *Latin American Weekly Report*.

peso's appreciation in real terms, with the effect of encouraging imports. In an effort to maintain real exchange rate stability, the Government then allowed the peso to slide against the U.S. dollar by 1 peso per day. The peso continued to depreciate in relations to the dollar by a 17-percent annual rate in 1989, and by a 14-percent annual rate in the first half of 1990.

United States Trade with Mexico

The United States is Mexico's most important trading partner. Mexico is the third-largest U.S. trading partner, after Canada and Japan. In 1989, Mexico accounted for only 6.9 percent of overall U.S. exports and 5.7 percent of its imports, compared with Mexico's dependence on the United States for over 70 percent of its trade in both directions.

The tabulation below shows United States-Mexican bilateral trade since 1983. Figure D-1 shows the U.S. trade balance with Mexico, 1985-89.

After 1987, U.S. exports to Mexico increased rapidly, amounting to $14 billion in 1987, $19.9 billion in 1988, and $24.1 billion in 1989. As a result of a comparatively slower growth of U.S. imports from Mexico, the U.S. deficit in bilateral trade contracted, even though Bureau of Census data still show a deficit of $2.4 billion for 1989:

In 1989, manufactured goods accounted for over three-fourths of U.S. exports to Mexico (figure D-2) and over two-thirds of U.S. imports from that country (figure D-3). Agriculture products were responsible for 8.9 percent of U.S. exports and 10.0 percent of U.S. imports.[5] Fuels and raw materials accounted for 18.0 percent of U.S. imports from Mexico, reflecting major petroleum purchases from that country. (Tables showing the principal U.S. export and U.S. import items in trade with Mexico are at the end of this appendix.)

Selected Mexican exports to the United States Mexico enter duty free either under the Generalized System of Preferences (GSP), for which Mexico is eligible as a developing country, or under items 9802.00.60 and 9802.00.80 of the Harmonized Tariff System (HTS). In 1989, merchandise valued at $2.5 billion, or 9.3 percent of overall U.S. imports from Mexico, entered duty-free under GSP. Mexico was the leading beneficiary country under the program.

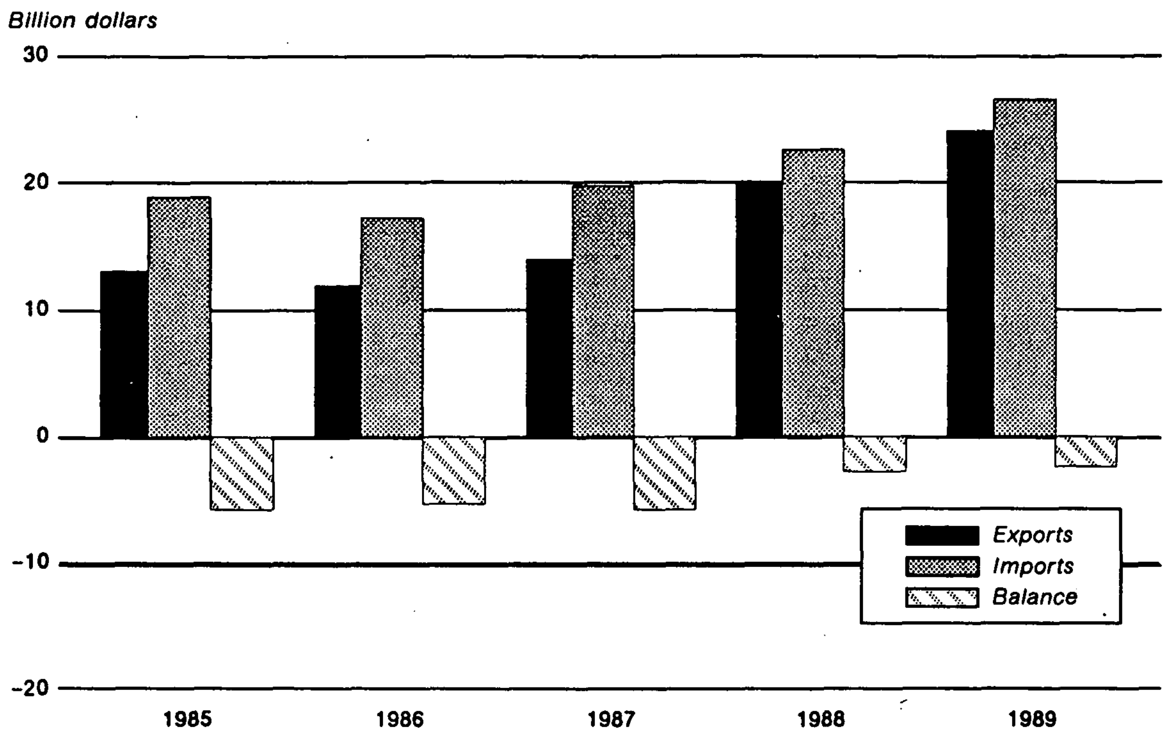
Imports under HTS 9802.00.60 and 9802.00.80 of the Harmonized Tariff Schedule (formerly item 806/807 of the TSUS) have rapidly increased as a share of imports from Mexico during the 1980s and, in 1989, they accounted for 45 percent of the total (see table D-1). These items reenter the United States after being assembled in Mexico from U.S. components, or being processed from U.S. materials. The United States does not levy duties on the U.S. materials and components incorporated in the reentering products, only on the value added in Mexico. By the same token, a considerable portion of U.S. exports to Mexico are inputs into Mexican products that will eventually reenter the U.S. market. Tables D-2 and D-3 show leading U.S. imports for consumption from Mexico and leading U.S. exports for consumption to Mexico, respectively.

U.S.-Mexican Bilateral Trade

Year	*U.S. Exports to Mexico (FAS)*	*U.S. Imports from Mexico (customs value)*	*U.S. Balance*
		(In millions of dollars)	
1983	8,755	16,619	-7,864
1984	11,461	17,762	-6,301
1985	13,084	18,938	-5,854
1986	11,925	17,196	-5,272
1987	14,045	19,766	-5,721
1988	19,853	22,617	-2,764
1989	24,117	26,557	-2,439

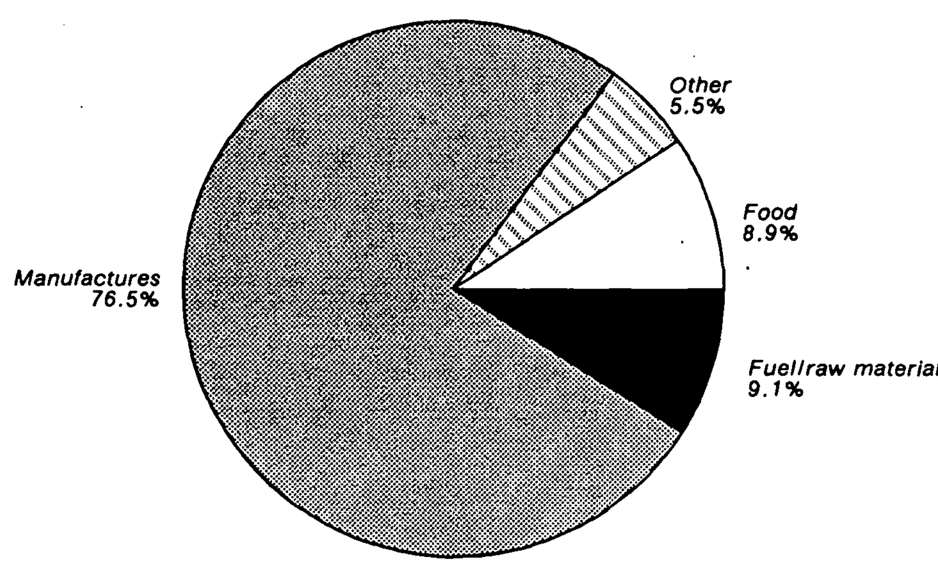
[5] A considerable part of U.S. agricultural exports to Mexico is financed under the U.S. Department of Agriculture's export loan guarantee programs.

Figure D-1
U.S. exports, imports, and trade balance with Mexico, 1985-89



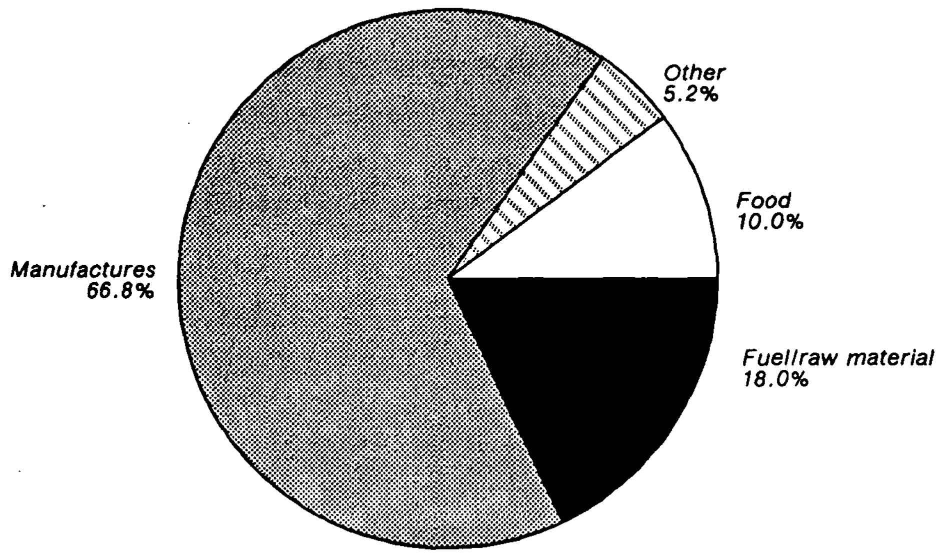
Source: Compiled from official statistics of the U.S. Department of Commerce.

Figure D-2
Composition of U.S. exports to Mexico, by product sector, 1989



Source: Compiled from official statistics of the U.S. Department of Commerce.

Figure D-3
Composition of U.S. imports to Mexico, by product sector, 1989



Source: Compiled from official statistics of the U.S. Department of Commerce.

Table D-1
U.S. imports from Mexico entered under HTS items 9802.00.60 and 9802.00.80, 1985-89
(values in millions of dollars)

	1985		1986		1987		1988		1989	
	Value	Percent of total	Value	Percent of total	Value	Percent of total	Value	Percent of total	Value	Percent of total
Total U.S. imports	18,938.2	100.0	17,196.4	100.0	19,765.8	100.0	22,617.2	100.0	26,556.6	100.0
HTS 9802.00.60	30.3	.2	89.9	.5	112.3	.6	131.0	.6	181.1	.7
HTS 9802.00.80	5,536.7	29.2	6,366.7	37.0	8,576.4	43.4	10,653.5	47.1	11,766.7	44.3
Imports under items 9802.00.60 and 9802.00.80	5,567.0	29.4	6,456.6	37.5	8,688.7	44.0	10,784.5	47.7	11,947.8	45.0
Imports under GSP	1,240.0	6.5	1,443.4	8.4	1,721.3	8.7	2,192.3	9.7	2,470.8	9.3

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table D-2
Leading U.S. imports for consumption from Mexico, 1987-June 1990

(Thousands of dollars)

HTS No.	Description	1987	1988	1989	January-June 1989	January-June 1990
	Total all commodities	19,765,789	22,617,177	26,556,570	13,226,552	14,189,571
270900	Crude oil from petroleum and bituminous minerals	3,500,836	2,853,843	3,999,140	1,970,552	1,848,901
870323	Pass veh spk-ig int com rcpr p eng >1500 nov 3m cc	1,109,602	1,434,538	1,334,279	781,170	779,209
854430	Insulated wiring sets for vehicles ships aircraft	614,822	888,266	1,051,798	532,762	592,353
980100	Imports of articles exported & returned, no change	569,614	745,454	942,251	427,484	481,043
852810	Color television receivers	337,219	586,472	768,240	370,017	394,708
070200	Tomatoes, fresh or chilled	158,808	150,266	222,316	167,732	336,558
852990	Pts,ex antenna,for trnsmssn,rdr,radio,tv,etc nesol	466,200	518,002	625,335	311,728	318,035
010290	Bovine animals, live, nesol	252,144	262,004	284,226	156,229	215,088
090111	Coffee, not roasted, not decaffeinated	380,431	282,432	434,184	141,983	211,134
870821	Safety seat belts and parts of 8701 to 8705	193,605	248,185	363,714	158,366	208,051
870324	Pass veh spk-ig int com rcpr p eng > 3000 cc	282,598	307,635	372,552	165,056	196,690
870899	Parts and accessories of motor vehicles, nesol	239,419	397,685	329,992	162,190	180,342
870431	Mtr veh trans gds spk ig in c p eng, gvw nov 5 mtn	88,336	717	118,874	0	141,348
847330	Parts & accessories for adp machines & units	85,504	117,002	276,522	130,384	136,650
999995	Estimated imports of low valued transactions	127,366	149,254	213,273	97,062	136,200
840734	Spark-igntn recprcting piston engine etc > 1000 cc	603,785	490,316	330,381	205,579	133,363
854451	Electrical conductors > 80 but =< 1000v w cnctrs	162,665	165,997	241,556	116,747	130,383
710691	Silver, unwrought nesol	275,890	241,227	337,941	225,936	121,779
853650	Elect switches f voltage not over 1000 v, nesol	130,760	175,795	175,845	76,499	115,367
070960	Fruits of genus capsicum or pimenta, fresh/chilled	45,592	54,264	87,071	65,451	112,773
271000	Oil (not crude) from petrol & bitum mineral etc	208,156	229,145	121,258	59,530	105,691
852721	Radiobroadcast receivers for motor vehicles w rcos	280,550	426,559	318,413	180,659	98,624
853690	Elect appr f prtct to elect circt nov 1000 v nesol	16,114	28,992	174,768	73,730	98,580
940120	Seats of a kind used for motor vehicles	33,535	50,299	179,917	94,764	96,823
850140	Ac motors, single-phase	112,991	131,105	171,587	84,365	93,792
852510	Transmission apparatus for radio or television	150,250	159,367	143,926	88,763	90,995
260300	Copper ores and concentrates	41	3,026	40,970	5,170	87,468
847191	Digital process unit with storage, input output un	67,494	131,522	196,355	90,903	77,305
080710	Melons, including cataloupes & watermelons, fresh	66,788	60,909	92,643	85,199	74,024
901890	Instr & appl f medical surgical dental vet, nesol	47,355	79,566	121,010	49,762	73,314
	Total of items shown	10,608,470	11,369,844	14,070,334	7,075,771	7,686,590
	Total other	9,157,319	11,247,333	12,486,236	6,150,781	6,502,981

Note.—Data before 1989 are estimated.
Top 30 commodities sorted by imports for consumption, Customs value in 1990 January-June.

Source: Compiled from official statistics of the US Department of Commerce.

Table D-3
Leading U.S. exports for consumption to Mexico, 1987-June 1990

(Thousands of dollars)

HTS No.	Description	1987	1988	1989	January-June 1989	January-June 1990
	Total all commodities	14,045,175	19,853,345	24,117,255	11,936,756	13,197,366
870899	Parts and accessories of motor vehicles, nesoi	215,955	268,981	918,806	416,915	809,680
988000	Estimat of under $1501 data	339,334	459,502	675,707	279,962	520,010
852990	Pts,ex antenna,for trnsmssn,rdr,radio,tv,etc nesoi	126,365	177,442	557,668	276,096	289,232
870829	Pts & access of bodies of motor vehicles, nesoi	219,141	278,084	454,108	209,071	260,202
100590	Corn (maize), other than seed corn	274,983	388,702	437,030	133,270	253,897
271000	Oil (not crude) from petrol & bitum mineral etc	380,849	296,537	439,174	238,652	227,869
100700	Grain sorghum	62,040	144,160	320,044	164,401	216,805
853890	Pt f elect appr f elect circt; f elct contrl nesoi	63,186	109,713	353,571	162,306	195,021
847330	Parts & accessories for adp machines & units	318,235	421,231	360,408	178,732	189,744
854430	Insulated wiring sets for vehicles ships aircraft	400,955	503,708	474,954	272,894	187,533
850490	Pts for elect transformers static converters indct	66,837	109,842	234,575	102,142	148,383
880240	Airplane & ot a/c, unladen weight > 15,000 kg	45,106	7,923	209,161	51,364	113,001
840991	Spark-ignition int combustion piston engine parts	148,671	197,881	247,311	144,371	108,008
980110	Value of repair/alter articles previous imported	47,953	56,611	314,696	168,195	106,338
854419	Insulated winding wire, nesoi	5,491	5,825	129,506	59,032	105,849
392690	Articles of plastics, nesoi	36,899	58,723	182,134	86,485	105,008
120100	Soybeans, whether or not broken	220,437	350,129	308,896	202,870	92,059
481910	Cartons, boxes & cases corrugated paper & paperbd	59,709	116,371	156,607	80,168	83,212
840999	Spark-ignition reciprocating int com pistn eng pts	176,721	196,327	138,092	65,802	82,065
850300	Pts elec motor, generators,inc sets & rot convert	106,697	186,341	208,039	117,013	80,067
980900	Exports valued not over $10,000, not indentified	154,535	268,281	219,088	124,417	77,849
903290	Pts, autom regulating/controlling inst & apprts	15,993	16,007	141,928	49,272	77,759
870821	Safety seat belts and parts of 8701 to 8705	320	249	136,528	73,539	68,361
853290	Parts for electrical capacitors	37,557	45,044	97,917	36,287	66,066
710812	Gold, nonmonetary, unwrought nesoi	3,016	1,494	82,513	3,618	64,317
540720	Synthetic filament yarn fabric from the strip	8,969	11,929	92,313	47,742	58,692
830160	Parts of locks, base metal	4,881	7,813	98,566	46,546	57,441
940190	Parts of seats (ex medical, barber, dental etc)	5,345	5,691	79,900	24,763	57,004
854011	Cathode-ray tv picture tubes, color inc monitor	16,215	49,280	102,260	53,538	56,503
440710	Coniferous wood sawn, sliced etc, over 6 mm thick	39,770	69,107	98,971	42,242	55,430
	Total of items shown	3,602,163	4,808,928	8,270,472	3,911,707	4,813,603
	Total other	10,443,012	15,044,416	15,846,783	8,025,049	8,383,763

Note.—Data before 1989 are estimated.
Top 30 commodities sorted by imports for consumption, Customs value in 1990 January-June.

Source: Compiled from official statistics of the US Department of Commerce.

Mexican operations assembling U.S.-made components or processing U.S. materials take place in the Mexican "in-bond" or maquiladora industry. The industry is based on the concept of production sharing; it is concentrated in the border areas of Mexico with some establishments having "twin-plants" on the U.S. side of the border. The maquiladora industry is Mexico's second-largest source of hard-currency earnings from exports, after petroleum. Maquiladoras, which are overwhelmingly but not exclusively U.S.-owned, constitute a trade link of steadily growing importance between the United States and Mexico.

APPENDIX E
MEXICAN STEEL PRODUCTS SUBJECT TO VRAS

Table E-1

Mexican Steel Products Subject to VRAs: Import Penetration and Estimated Tonnage for the Initial Period[1]

Product	*Import Penetration*	*Export Ceiling[2]*
	(Percent)	*(Metric Tons)*
Semi-finished Steel	0.24	259,195
C/A Flat Rolled	0.28	118,415
C/A HR Sheet, strip	0.23	43,514
C/A CR Sheet, strip	0.19	31,439
Plate	0.70	43,953
Stainless Flat Rolled	0.88	11,942
Coated Flat Rolled	0.67	130,992
Bar and Rod	0.99	211,058
Carbon CF Bar	0.53	7,065
Carbon Wire Rod	2.17	128,464
Stainless Bar and Rod	0.03	72
Angles, Shapes, Sections/Rail and Rail Products	0.72	70,351
Wire and Wire Products	3.00	62,940
Wire Rope	2.54	4,978
Wire Strand	([3])	2,000
Panels and Mesh	0.86	17,639
Other Wire, Wire Products and Fence	1.82	37,328
Pipe and Tube	2.55	184,416
OCTG	2.00	31,820
Line Pipe	3.64	63,591
Standard Pipe	4.21	90,431
Tool Steel	0.31	322

[1] Reflects initial agreement period of fifteen months, e.g., 4th quarter 1989 and 1990.
[2] Tonnage estimate as based on May 1990 forecast of apparent consumption.
[3] Export ceiling is fixed tonnage.