

THE BENEFITS OF THE NAFTA FOR THE U.S., MEXICO, AND THE CARIBBEAN

Senator John S. McCain

This conference on the NAFTA and the expansion of free trade is taking place at an auspicious time. The President of Chile is in Washington addressing a joint session of Congress on, among other things, Chilean membership in the NAFTA. By June 30, the Clinton Administration must report on the effects of the NAFTA, which will lead to debate on the future of the Agreement. In addition, Congress will consider fast-track authority on extending the NAFTA membership to additional countries.

Let me state from the outset that I am a supporter of free trade, both within the Western Hemisphere and around the world. I believe that the reciprocal opening of markets to freer trade will benefit U.S. consumers, companies, and workers across the board. We have the world's largest and most competitive market, with the most innovative companies and the most productive workers, and I am fully confident of the ability of the U.S. economy to compete successfully in the international marketplace. Moreover, because the U.S. economy is already one of the most open in the world, with among the fewest barriers to foreign trade, we stand proportionately more to gain and less to lose from a mutual lowering of obstacles to trade than other countries.

As a result, I was an early and strong supporter of the NAFTA and the Uruguay Round Agreement. I will also support fast-track authority to negotiate the expansion of the NAFTA, not only to Chile but also to our neighbors in the Caribbean Basin.

Now, it is true that the NAFTA has not fulfilled the near-term expectations of all of its supporters. Although U.S. exports to Canada and Mexico increased twenty-two percent between 1993 (the year Congress passed the NAFTA) and 1995, the U.S. ran a trade deficit with both countries in 1995 (\$16.3 billion with Mexico, and \$15.2 billion with Canada). A UCLA study released in December 1996 indicated that the NAFTA has so far resulted in an increase of only about 3,000 U.S. jobs. Certainly not the "giant sucking sound" promised by one NAFTA critic with Presidential aspirations, but also not the explosive export-driven job growth that the Clinton Administration promised during the NAFTA debate either.

But trade agreements are only one part of the international trade equation. The fact is that the U.S. economy has been growing steadily during this period, so our economy's demand for imports has continued to increase. Canada's economy, however, has been in the doldrums and the Canadian dollar has been weak, which means that Canadian consumers have been less able to buy American. The situation in Mexico, of course, has been much worse. The 1994 peso devaluation caused major hardship for Mexican consumers and companies, with a subsequent drop in imports.

The NAFTA did not cause the economic problems of either Mexico or Canada, so the trade balance with our neighbors would have worsened in any case.

The recent rebound in the Mexican economy, however, including Mexico's repayment in full of U.S. economic support funds last month three years ahead of schedule, is at least partially the result of the NAFTA.

Moreover, the NAFTA had the extremely beneficial effect of shielding U.S. exporters from new trade barriers after the peso devaluation. During the Mexican economic crisis beginning in 1982, Mexico imposed 100% duties on many U.S. exports and took other measures to close its market to U.S. goods. U.S. exports to Mexico were cut by half, and it took six years for our exports to recover. Following the 1994 devaluation, Mexico raised tariffs on 4500 imported goods, but U.S. exports were exempt because of the NAFTA. As a result, U.S. exports to Mexico dropped by less than 9% in 1995, while Japan's exports fell by 21% and Europe's by 24%. In addition, because of the NAFTA, our exporters were first in line to take advantage of the Mexican recovery, with U.S. exports exceeding the record 1994 levels during the first six months of 1996.

So I have no doubt that the NAFTA will benefit the U.S. as well as Mexico. But it is also important for us to find a way to extend the benefits of the NAFTA to the much smaller and poorer economies of the Caribbean Basin.

In January, I visited Central America, meeting with government and business leaders in Guatemala, El Salvador, Nicaragua, and Panama. On several occasions, I was told that the local economies were suffering because Mexico's greater access to the U.S. market under the NAFTA was costing these countries exports and investment.

During the 1980s, Communist penetration of Central America was a matter of major political concern to the U.S. Today we can say that our political objectives in the region have been achieved. Guatemala, El Salvador, and Nicaragua are at peace with democratic governments, but their economies are still heavily damaged by years of war and civil unrest. These countries desperately need economic growth in order to carry out reconstruction, integrate demobilized soldiers (including guerrillas) into the economic mainstream, rebuild damaged infrastructure, and remove landmines. If the economic wherewithal does not come from somewhere, our political gains in the region may be lost.

Because of our own budget concerns, the U.S. is not in a position to provide massive amounts of foreign aid to these countries. But aid is not what these countries really need. We would have a much more important and lasting impact if we would allow these countries to export to the U.S. market on the same terms as Mexico. This way, the responsibility would rest with the countries themselves to achieve market reforms and make their economies competitive in the world marketplace.

Legislation to extend NAFTA parity to the twenty-four countries of the Caribbean Basin Initiative was introduced in both the 103rd and 104th Congresses, but without any final action. Since my return from Central America, I have discussed the importance of fast-track authority to extend NAFTA benefits to these countries with President Clinton and Mack McLarty, the President's special envoy for Latin America. I believe they are fully committed to rapid movement in this direction.

The problem, however, is with domestic opposition to more openness in the U.S. economy, particularly from labor. I understand and am not insensitive to the problems that increased international competition can cause for U.S. firms and workers. But as I indicated earlier, I have faith in the ability of U.S. workers and companies to compete effectively. Overall, I am convinced that opening our market to these countries will benefit the U.S. economy, just as our NAFTA partnership is already contributing to U.S. prosperity. If we cannot take these steps at a time when the stock market is at an all-time high and unemployment is at its lowest level in years, when will we be able to do so?

I intend to use my position as a U.S. Senator and Chairman of the Senate Committee on Commerce, Science and Transportation to do whatever I can to extend the benefits of free trade to the U.S. economy and to our neighbors in this hemisphere.



