2. NAFTA and the U.S. Economy ~ Clinton Administration*

After the Cold War ended and most social revolutionary groups put down their guns, U.S. governments changed their approach to Latin America. Whereas Reagan had pushed for the "liberation" of Latin American markets, the Clinton administration (1993–2001) took the idea a step further and moved boldly for regional economic integration in North America. Such a move was designed to strengthen the U.S. economy at a time when a single, unified European Union was already coming into existence. The Clinton administration pushed the North American Free Trade Agreement through Congress in 1993. In this primary source selection, the administration argues its case for NAFTA's passage. The case was largely an attack on Mexico's last remaining tariff barriers on U.S. imports. The government of President Carlos Salinas had already begun dismantling such barriers (a vestige of Mexico's earlier experiment with populist economic nationalism) by the mid-1980s, but that was not good enough. Who, according to this selection, was NAFTA designed to help? In the decade since its implementation, have predictions about NAFTA proven accurate?

Every generation of Americans has embraced the challenge of its times. None has shrunk from the task. Our biggest challenge today is economic—to channel a changing international economy to our benefit.

The Clinton Administration is committed to rebuilding the U.S. economy from the ground up. We must prepare our entire work force to compete in the global economy and make sure that nobody gets left behind in the process. We look at trade—and every other issue—from the viewpoint of what is best for ordinary Americans who work hard, play by the rules, and want a chance to get ahead. The key building blocks are economic growth and jobs.

The North American Free Trade Agreement (NAFTA) is a part of this forward-looking strategy. This Administration supports NAFTA because it will create high-wage U.S. jobs, boost U.S. growth, and expand the base from which U.S. firms and workers can compete in a dynamic global economy.

Creating the Biggest Market in the World

With NAFTA, the United States, Canada, and Mexico will create the biggest market in the world—a combined economy of $6.5 trillion and 370 million people:

*Adapted from *The NAFTA, Expanding U.S. Exports, Jobs, and Growth: Clinton Administration Statement on the North American Free Trade Agreement* (Washington, DC: Executive Office of the President, 1993), 3–5.

- Our competitors are expanding their markets in Europe and Asia. NAFTA is our opportunity to respond and compete.
- By increasing our export opportunities, NAFTA will enable us to take advantage of U.S. economic strengths and remain the world's biggest and best exporter.

Immigration

To the extent that our workers compete with low-paid Mexicans, it is as much through undocumented immigration as trade. This pattern threatens low-paid, low-skilled U.S. workers.

The combination of domestic reforms and NAFTA-related growth in Mexico will keep more Mexicans at home.

- It is likely that a reduction in immigration will increase the real wages of low-skilled urban and rural workers in the United States.

Leveling the Playing Field

Mexico's trade barriers are now much higher than ours. NAFTA will level a playing field now tilted heavily in Mexico's favor.

- Mexico's average tariff against U.S. exports is currently 2.5 times higher than the equivalent U.S. tariff against imports from Mexico.
- By contrast, over 50 percent of our imports from Mexico already enter duty-free. Our average tariff on imports from Mexico is only 4 percent.
- Complex Mexican domestic-licensing requirements further impede imports into Mexico from the United States.
- Mexico currently has no obligation to continue recent market-opening moves on which thousands of U.S. jobs already depend. NAFTA will not only lock in current access but expand that access.
- NAFTA will eliminate especially burdensome tariffs and non-tariff barriers in a number of key sectors where the United States is competitive vis-à-vis Mexico—such as autos and agriculture.

NAFTA will require relatively little change on our part—while requiring Mexico to sweep away decades of protectionism and overregulation:

- Half of all U.S. exports to Mexico will be eligible for zero Mexican tariffs when NAFTA takes effect on January 1, 1994.
- U.S. exports eligible for tariff-free entry into Mexico include some of our most competitive products.

- Within the first five years after NAFTA is implemented, two-thirds of U.S. industrial exports will enter Mexico duty-free.
- Under NAFTA, Mexico will open its market significantly to U.S. manufactured exports. For example, for automotive parts, Mexico will eliminate 75 percent of its duties over five years and phase out the rest over ten years.
- NAFTA also will require Mexico to open its market to U.S. service exports (U.S. service exports to Mexico were $8.9 billion in 1992). This will benefit such industries as enhanced telecommunications services, insurance, banking, accounting, and advertising.

Removing Mexican restrictions against U.S. exports means that U.S. companies no longer will have to invest in Mexico or manufacture in Mexico to supply the Mexican market. NAFTA will eliminate Mexican requirements that force our companies in Mexico to:

- Purchase Mexican goods instead of U.S.-made equipment and components;
- Export their production, usually to the United States, instead of selling directly into the Mexican market; and
- Produce in Mexico to sell in Mexico. For example, the current Auto Decree has the effect of barring automotive imports from the United States through a complex series of investment requirements that will be phased out under NAFTA.