

As Prepared for Delivery

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I appreciate being given this opportunity to speak to the National Foreign Trade Council. I want first to thank NFTC and its members for your support as President Bush seeks to regain momentum for America's trade agenda. We have an extraordinary opportunity to shape the design of the world trading network – and to ensure that the United States is the nucleus of this dynamic system. Yet we cannot do so without the strong, sustained support of America's private sector.

We are in the midst of a great debate about trade. We can no longer presume a domestic consensus on the benefits of openness and expansion. Therefore, it should not be a surprise that the opponents of openness have targeted the North American Free Trade Agreement, NAFTA, which seven years ago created the largest free trade area in the world. What is a surprise is that the proponents of an internationally engaged United States have so often abandoned the debate to the economic isolationists and false purveyors of fright and retreat.

If we are going to extend free trade to all the Americas, if we are going to launch a new global round of trade negotiations that will lift the fortunes of the developing and developed world alike, if we are going to negotiate free trade agreements with reforming, opening economies so as to set models and raise hopes for others – and if we are going to persuade the U.S. Congress to support the President on trade – then we – all of you – must tell the truth to the American people about the benefits of trade and openness. And in telling the truth, we must dispel the myths about NAFTA.

NAFTA offers the high ground on which to plant the standards of free trade, democracy, and support for developing nations.

First, NAFTA was one of the United States' first post-Cold War political and economic commitments. As such, it offers a model for U.S. engagement with many countries – for neighbors near and friends afar. So let's put the question directly: Has NAFTA promoted U.S. interests? Has NAFTA been good for U.S. families, workers, farmers, ranchers, and businesses?

Second, NAFTA offers a concrete example of free trade between developed and developing nations. Indeed, this is a test case with a 2,000-mile border. For all the ink spilled speculating about "globalization," NAFTA offers a "ground zero" case of policy in action. So how has NAFTA affected the overall relationship between the United States, Canada, and Mexico? Does NAFTA offer a new model for North-South relations, one of the great foreign and economic policy challenges now that the Cold War division between East and West is over?

Third, NAFTA has been the cornerstone of Mexico's development strategy, politically and economically. What has NAFTA accomplished for the people of Mexico? What do the Mexican

people think of NAFTA?

These are all questions that need answering. It's time to speak directly about NAFTA's legacy.

NAFTA: Good for the United States

The real story of NAFTA is beginning to be told. A recent *Business Week* article on NAFTA concluded that "on its major objective – promoting trade between the United States and Mexico – NAFTA has been a huge success." But we need to get the details of the story out.

We can begin with what NAFTA and open trade have meant for the average U.S. family. And these are conservative estimates: NAFTA and the Uruguay Round together have resulted in higher incomes and lower prices for goods, with benefits amounting to \$1300 to \$2000 a year for a family of four. That is real money for farmers, nurses, teachers, police officers, and office workers. The real beneficiaries are lower-income Americans, who bear a disproportionate burden when prices for food, clothing, and appliances are kept artificially high because of trade barriers.

It is no coincidence that the longest period of economic growth in U.S. history, with levels of non-inflationary full employment beyond the forecasts of any economist, came in the aftermath of NAFTA. Ross Perot claimed that NAFTA would lead to "a great sucking sound" that would swallow U.S. jobs. Well, Ross Perot was right about a great sucking sound, but wrong about the effect: NAFTA has been pulling American goods and grains into Mexico, benefiting consumers and supporting quality U.S. jobs here at home. In the seven years since NAFTA's implementation, U.S. exports to Mexico and Canada now support 2.9 million American jobs – 900,000 more than in 1993. Such jobs pay wages that are 13 to 18 percent higher than the average American wage.

When the Congress approved NAFTA in 1993, trade between the United States and Mexico totaled \$81 billion. Last year, our trade hit \$247 billion – nearly half a million dollars per minute. U.S. exports to our NAFTA partners increased 104 percent between 1993 and 2000; U.S. trade with the rest of the world grew only half as fast. Today we export more to Mexico than to Britain, France, Germany, and Italy combined.

Time Magazine recently quantified the daily volume of the U.S.-Mexican trade: one million barrels of oil; 432 tons of bell peppers; 238,000 light bulbs; 166 Volkswagen Beetles; 16,250 toasters; and \$51 million worth of auto parts. Mexico and the United States are being knit together in a variety of ways. The number of passengers flying between the United States and Mexico nearly doubled between 1988 and 1999. The border town of Laredo, Texas has the highest grossing Wal-Mart in the United States – thanks to the active cross-border commerce.

Earlier this year, as California faced an energy crisis, the Mexican state of Baja California stepped in to sell the San Diego area enough electricity to power 50,000 homes. More than 500,000 Americans live in Mexico, and more than 2,600 American companies have operations there.

NAFTA has provided real benefits for real people. The Ray-Carroll County Agriculture Co-op in Richmond, Kansas credits NAFTA with opening the Mexican agriculture market, and as a result soybean exports to Mexico now constitute 65 percent of its total sales, up from 10 percent in the pre-NAFTA era. TRW reports that because NAFTA reduced tariffs and eliminated local content requirements on automobiles the company did not go through with its pre-NAFTA plans to move an automobile parts plant in Lebanon, Tennessee to Mexico. Instead, TRW has added more than 200 jobs at the plant since the NAFTA's passage.

U.S. agricultural exports to Mexico have nearly doubled since NAFTA was approved in 1993; our beef and veal exports have increased over five-fold; and our corn exports have increased nearly eighteen-fold.

In the manufacturing sector, the value of U.S. textile and apparel exports to Mexico and Canada has doubled under NAFTA, reaching nearly \$10 billion last year. Exports of American-made cars to Mexico have increased more than 1,000 percent. I'm told that someone from DaimlerChrysler is in the audience, so you know the story of NAFTA. In 1993, Chrysler exported just 5,300 vehicles to Mexico. The next year, with NAFTA in effect, it exported 17,500. Last year, over 60,000 Chrysler vehicles were exported to Mexico. These exports support real jobs for real Americans, which is why I wonder about the wisdom of American auto union executives opposing trade agreements that will boost auto exports.

NAFTA has done much more than open export markets for American businesses though. By knocking down barriers to trade, it has boosted productivity and wages, reduced prices on everyday consumer goods, increased consumer choice, and stimulated economic growth. NAFTA has helped boost the competitiveness of the entire U.S. economy – a benefit that's felt throughout the United States.

NAFTA: A Successful Model of North-South Relations

Looking to North-South relations, the NAFTA legacy extends far beyond an agreement on trade. NAFTA represents a commitment by Mexico to modernize – politically and economically – and a commitment by the United States and Canada to support this great change. NAFTA links Mexico to North America and at the same time helps the United States and Canada realize the full potential of a new, larger North America.

The NAFTA model signals an historic shift: In the 19th century strong countries wanted weak neighbors they could dominate. In the 21st century, strong countries will benefit from prosperous, democratic neighbors. Troubled neighbors export problems. Healthy neighbors create regions of vitality, growth, and peace.

NAFTA has been the means to finally fulfill a distinctly American dream of cooperative economic and

political relations between the United States and Mexico dating back two centuries.

But over the years U.S. relations with Mexico were marked mostly by disappointments and conflicts – on both sides. Mexicans remembered that they lost about half of their new nation to the United States through war. Americans recalled Mexico's nationalization of U.S. investments, its reflexive hostility to U.S. foreign policies, and Mexico's retreat into economic autarky.

During the 1980s, the twin pressures of a shrinking economy at home and a more competitive economy around the world spurred Mexico's leaders to choose a different economic path: they gradually deregulated and privatized the economy, signed the General Agreement on Tariffs and Trade, and opened Mexico to competition, fresh ideas, and new hope. The results were breathtaking: Today, Mexico is an economic – and political – success story.

Indeed, NAFTA was a key to the political transformation of a modernizing Mexico. Since 1994, when NAFTA went into effect, the one-party state has yielded to governors from opposition parties in more than one-third of Mexico's states. Even the redoubt of Mexico City, the seat of centralized power for 500 years, fell to the free will of the electorate.

Last year, Mexico's democracy sparked change at the highest level. In the freest and most open presidential election in the country's history, Mexico elected a new President, Vicente Fox, from an opposition party for the first time since that nation's revolution. It was no accident that Mexico opened up its political system and embraced democracy after it liberalized its economic system through NAFTA. We have seen this same transformation in Taiwan, South Korea, and other parts of the world.

The presidential election was also a referendum on how the Mexican people viewed NAFTA. NAFTA's opponents outside of Mexico often claim they are defending the Mexican people against an agreement that has led to exploitation. But when the people of Mexico had the opportunity to speak for themselves, 80 percent of them voted for major-party candidates who endorsed North American free trade.

Mexico's new era of democratic politics has helped foster more cooperative relations with the

United States, Canada, and rest of the world. For much of the 20th century, Mexico's leaders viewed the United States through an adversarial lens. Today, we are working cooperatively on issues spanning from the environment and drugs to law enforcement and immigration. NAFTA has helped both countries developed a greater appreciation for the tremendous opportunities presented by being neighbors.

There is a new, more open economic environment in Mexico. The prevailing spirit is one of free

enterprise and equal opportunity, in which entrepreneurship is rewarded and graft is punished. Mexico has also begun to develop closer links to not only the U.S. economy but the global economy. Following on the success of NAFTA, Mexico has signed free trade agreements with 32 countries – including an agreement with the member states of the European Union. Mexico has also adopted a progressive leadership position within the World Trade Organization, helping to urge other developing nations to embrace the benefits of trade liberalization.

Mexico's WTO role is a reminder that NAFTA's benefits extend beyond North America. NAFTA set an example for the rest of Latin America, sending an unmistakable signal in favor of democracy and open markets. As the reform movement gains momentum throughout Latin America, and as we press forward with the Free Trade Area of the Americas, it is more important than ever that we continue to build on NAFTA's successes.

What Has NAFTA Accomplished for the People of Mexico?

NAFTA has been a macro-economic success. But the essential questions are: What has NAFTA accomplished for the people of Mexico? And is NAFTA a model for developing nations?

I occasionally think back to the Mexico I first experienced nearly 20 years ago. It was in the throes of a debt crisis, and the banking system had just been nationalized. Free trade with the United States – or anyone else – was anathema to the country's leaders. The economy – and the politicians – lived off of protected, inefficient state-owned industries, especially its patrimony of oil.

NAFTA brought a new level of competition to the domestic Mexican market, as U.S. companies faced many fewer barriers to entry. Mexico's businesses have had to adapt, and become more competitive, if they wanted to survive. For the most part, they have survived, and many have thrived.

Today, Mexico has one of the most open – and vibrant – economies anywhere in the developing world. Despite financial upheaval, exacerbated by the rigidities of the old order, Mexico's gross domestic product grew, on average, 3.5 percent annually in the 1990s. Over the last five years, Mexico's GDP has grown at an average annual rate of 5.5 percent.

Ernesto Zedillo, Mexico's former president, has said, "NAFTA has been crucial in transforming Mexico into one of the world's biggest exporting powers." Indeed, NAFTA has fueled Mexico's economic growth; more than half of the 3.5 million jobs created in Mexico since 1995 are connected to trade.

As Mexico has become more competitive at home, its companies have expanded into other markets. The value of its mergers and acquisitions abroad tripled in 1999 over the previous year. A number of leading Mexican companies, such as Grupo FAMSA, a furniture and electronics retailer, and Cemex, a cement producer, have even opened operations in the United States.

As Mexico has become a player in the global economy, the discipline of markets has helped to reform its economy. Inflation, which averaged 100 percent in the 1980s, is now in single digits – a major breakthrough for Mexico's poor. The government's budget deficit – 14 percent of GDP in 1987 – is now one percent of GDP. And many protected sectors of the economy, such as the railroads, have been privatized and are thriving.

This transformation benefits the Mexican economy, and the Mexican people. Consider the telecom sector. As prices have come down, more people can afford to make more calls. The total number of minutes of local telephone service has been growing by more than 12 percent a year for the past decade, and the number of long distance minutes has been growing about 16 percent a year.

NAFTA also helped Mexico's resilience amidst the challenges of globalization. Following the 1982 peso crisis, it took Mexico seven years to be able to borrow again in international financial markets; after the financial shock of 1994-95, with the help of NAFTA, it took just seven months. Following the 1982 crisis, it took seven years for U.S. exports to Mexico to reach their pre-crisis levels; after the 94-95 shock, it took just 17 months.

The old corporate state of Mexico is yielding to a new civic society. The press is now more independent, and more honest – a striking contrast to the state-controlled media of years past. NGOs, lobbying for environmental and human rights causes, have blossomed.

NAFTA has also laid the groundwork for environmental improvements, giving the Mexican government new incentives to pass environmental legislation and improve enforcement efforts. As a result, Mexico has higher environmental standards than in the pre-NAFTA era. Through the North American Commission for Environmental Cooperation, created by NAFTA, Mexico and the United States have a forum for addressing environmental issues of continental concern, such as emissions levels and biodiversity protection. In the El Paso/Ciudad Juarez area, a cross-border air quality committee has been established to remedy local air pollution problems. NAFTA created a border commission, with public hearings, that approves sewage and water projects near the U.S.-Mexico border.

Developing nations frequently fail to invest their capital productively. NAFTA has helped solve this problem for Mexico, by creating a more stable and predictable environment for investment and leading foreign capital toward more productive and efficient uses. Talking about investment sometimes sound cold and abstract to opponents of trade. But investment is what enables Mexico's industries to modernize, Mexico's people to make the transition from subsistence to steady employment, and Mexico's children to attend quality schools that will better equip them to compete in a digital, globalized economy.

There is something tragic about seeing the leaders of almost every poor, developing country imploring the United States to expand free trade with their countries while a movement of largely middle and upper class protesters in developed nations try to close the door of opportunity. As President Bush

noted in his speech to the World Bank last week, “Those who protest free trade are no friends of the poor. Those who protest free trade seek to deny them their best hope for escaping poverty.” Ernesto Zedillo has said of the protesters that they “seem strangely determined to save the developing world from development.”

All of us want to see trade support protection of the environment and core labor standards. But in the end the numberless and voiceless poor will only have a chance to raise their living standards and offer a better life for their children if global trade and investment flows continue to expand.

Beyond NAFTA: Restoring Momentum for Trade Liberalization

The tremendous success of NAFTA underscores the importance of expanding free trade throughout the hemisphere – and the world. When President Bush assumed office, the clouds of the failure to launch the new round of global trade negotiations in Seattle were still hanging low, leaving many dispirited around the world. These troubles strike at the heart of the global trading system.

If you look at the record of the past few years, the United States has been falling behind. Today, the European Union has 27 free trade or special customs agreements around the world, 20 of which it negotiated in the 1990s; it is negotiating another 15 right now. Countries throughout East Asia are quickening the pace of special trade negotiations. Japan is negotiating a free trade agreement with Singapore, and is exploring free trade agreements with Canada, Mexico, Korea, and Chile. In our own hemisphere, there are 30 free trade agreements, and the United States is party to only one.

President Bush decided to regain momentum for America by pursuing trade globally, regionally, and bilaterally. We are creating a “competition in liberalization” with the United States at the center of a network of initiatives. We are backing words with actions across this agenda, and we are starting to see results.

In the first six months of the Bush administration, we have made progress in turning the idea of the Free Trade Area of the Americas into a reality.

The importance of breaking down barriers throughout the hemisphere is epitomized by the experience of Caterpillar – headquartered in my home state of Illinois. Caterpillar’s motor graders made for export to Chile face nearly \$15,000 in tariffs. When Caterpillar manufactures motor graders in Brazil for export to Chile, the tariff is just \$3,700. And when Caterpillar’s competitors produce the same product in Canada, it can be exported to Chile free of tariffs because of the Canada-Chile free trade agreement.

We are also negotiating free trade agreements with Chile and Singapore, sending a signal to the nations of Latin America and the rest of the world that the United States will reward good performers.

On the global front, after 15 years of negotiations we have broken through the last major barriers to China’s accession to the WTO.

We are working with all the members of the WTO – developed *and* developing nations – to ensure a successful launch of a new round of global trade negotiations less than 15 weeks from now in Doha.

Under President Bush's leadership, the United States is returning to where it belongs – at the center of global trade, not on the sidelines.

But wherever I go, and whatever progress we make, I am asked the same question: Will the Congress support the administration in trade? Will the Congress grant President Bush the negotiating authority granted to each of the previous five presidents?

We need your help. And we need it now. Not next year. Not next week. Now.

This is not an abstract debate on trade policy. I'm at the table now – every day – negotiating with countries from around the world. They have the full authority to negotiate for their nations' interest. I need it, too.

If we are unable to overcome the stain of Seattle by launching a new round of global trade negotiations, special trade agreements will proliferate even more quickly – most often without the United States. America will not be at the table helping to set the trade rules of the 21st century. Our absence will curtail consumer choice, increase prices, and undermine American competitiveness.

NAFTA illustrates one of the fundamental truths about trade: Trade is not a "you win, I lose" proposition. By generating growth, trade multiplies the purchasing power of our trading partners, which in turn benefits our businesses, farmers, workers, and consumers.

We should strive for more NAFTA's, to help build a world that trades in freedom – opening new markets for producers, new choices for consumers, and new avenues for political and economic cooperation between governments.

By pursuing this hopeful vision, we can set a course of peace and prosperity – for the United States, our NAFTA partners, and the global system – for decades to come.