



Woodrow Wilson
International
Center
for Scholars



NAFTA at 10:

Progress, Potential, and Precedents



Woodrow Wilson
International
Center
for Scholars

Canada Institute

Latin American Program

*Program on Science, Technology, America and the
Global Economy*

NAFTA at 10: Progress, Potential, and Precedents

**Volume II - Remarks by President George Bush,
President Carlos Salinas, and
Prime Minister Brian Mulroney**

WOODROW WILSON INTERNATIONAL CENTER FOR SCHOLARS

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ABOUT THE CENTER

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Preface

Kent H. Hughes

On December 9, 2002, President George H.W. Bush, Prime Minister Brian Mulroney, and President Carlos Salinas de Gortari came together in Washington, D.C., to mark the tenth anniversary of the signing of the North American Free Trade Agreement, or NAFTA.¹

Formal presentations by the three former leaders opened a two-day conference held in the Ronald Reagan Building and International Trade Center and the Woodrow Wilson International Center for Scholars. More than 800 people gathered to hear their formal remarks, which looked back at the considerations that led them to create NAFTA but also looked forward with their personal assessment of future trade ties. Their formal remarks were followed by a day and a half of panel discussions. Specific panels assessed the agreement itself and its impact on Canada, Mexico, and the United States. Other panels considered deepening ties in North America, an upcoming period of intense trade negotiations, and the ongoing process of global economic integration.

By the time President Bush, Prime Minister Mulroney, and President Salinas initiated the negotiations to create a North American partnership, Canada and the United States had already taken a step toward closer trade ties, first with the Auto Pact of 1965 and then with the Free Trade Agreement of 1989. Mexico and the United States were also developing a closer economic relationship, driven by rising Mexican exports and growing cross-border investment by U.S. companies.

Ties among the three North American partners have grown rapidly during the first decade of this historic trade agreement. By 2001, North American trade reached \$1.7 billion a day. Investment and other commercial decisions have become increasingly North American in character. The 1990s saw rapid growth in all three NAFTA countries; those years also saw a peso crisis and persistent poverty in Mexico, sharp depreciation of the Canadian dollar, and growing skepticism about free trade in the United States. Two panels explored both NAFTA's successes and its unmet challenges on the first afternoon of the conference.

The tenth anniversary of NAFTA came in the midst of the most wide-ranging set of trade negotiations the world has ever experienced. In addi-

tion to the multilateral Doha Development Agenda launched in 2001, a number of regional and bilateral negotiations were also underway. In particular, Canada, Mexico, and the United States were deeply involved in the effort to forge a Free Trade Agreement of the Americas by 2005. This ambitious trade agenda is taking place in the context of a widespread debate over the benefits and costs of globalization. On the morning of the second day of the conference, separate panels looked at NAFTA as a laboratory for future trade agreements as well as the effort to “get globalization right,” that is, to make sure that globalization is working for everyone.

The very forces that led Canada, the United States, and Mexico to seek closer trade relations with each other have also led to deeper economic, social, and cultural ties. To many observers, North America is developing a common labor market and interdependent financial links. Cooperation among the governments of the three countries goes far beyond the economic arena, and multiple private actors are engaged in countless cross-border relations.

In an era when globalization is often referred to as Americanization, it is all too easy to ignore the impact of Canada and Mexico on the United States. Canadian scholars, artists, and scientists have long made a mark on American culture and learning. Mexican music, art, and cuisine have become as American as the proverbial apple pie. Mexico and Canada are more important in each other’s economic, foreign policy, and cultural agendas than ever before. On the afternoon of December 10th, to conclude the conference, three separate panels explored the degree to which greater cooperation and integration is taking place in North America, and whether this has implications for the sovereignty and identity of the three individual NAFTA countries.

The NAFTA at Ten Conference examined the experience of the first decade of NAFTA to look ahead to the still unfolding development of a North American community both challenged and strengthened by growing economic and social integration. The lessons of NAFTA are integral to the understanding of trade relations and development in the rest of the Americas, the current international trade agenda, and the ongoing process of globalization.

NOTES

1. The North American Free Trade Agreement was initialed on October 7, 1992 in San Antonio, Texas. The Agreement was subsequently ratified in the United States, Canada, and Mexico and came into force on January 1, 1994.

The lessons of NAFTA are integral to the understanding of trade relations and development in the rest of the Americas, the current international trade agenda, and the ongoing process of globalization.

Conference Summary

Ten years ago, U.S. President George Bush, Canadian Prime Minister Brian Mulroney, and Mexican President Carlos Salinas de Gortari signed the North American Free Trade Agreement (NAFTA). Since the signing of NAFTA, trade and investment among the three North American nations has grown by more than 100 percent, with \$1.7 billion in trilateral trade each day.

Marking the 10th anniversary of this historic agreement, the Wilson Center convened a two-day conference to assess the impact of NAFTA, the lessons the agreement may hold for deepening North American ties and future trade agreements, and the international effort to “get globalization right.”

The 10th anniversary of NAFTA comes in the midst of the most wide-ranging set of trade negotiations the world has ever seen. In addition to the Doha Development Agenda launched in 2001, a number of regional and bilateral negotiations are underway. In particular, Canada, Mexico, and the United States are engaged in the effort to forge a Free Trade Agreement of the Americas (FTAA) by 2005. This ambitious trade agenda is taking place in the context of a widespread debate over the benefits and costs of globalization, particularly the effects of trade on poverty, inequality, labor rights, and the environment.

During the conference, panelists examined the experiences of the past decade to look ahead to the still unfolding development of a North American community both challenged and strengthened by growing economic and social integration. As Wilson Center President and Director Lee H. Hamilton said in his introductory remarks, “Woodrow Wilson himself might have seen [NAFTA and this conference] as steps toward his own vision of an international community.”

THE THREE SIGNATORIES

“The NAFTA signing created the largest, richest, most productive market in the world,” said former President Bush at the opening session of the two-day program, held in the Atrium Ballroom of the Ronald Reagan Building and International Trade Center. More than 800 people attended this session featuring the three national leaders who negotiated and signed the agreement.

All three leaders lauded NAFTA's success at creating millions of new jobs. Bush said that, since 1993, some 350,000 manufacturing jobs in the United States were lost due to NAFTA, but that two million higher-paying jobs were created.

"Our countries are stronger, our economies more robust, our peoples more prosperous, our social structures more resilient, our capital markets more stable, and our roles in the world more vigorous as a result of NAFTA," said former Canadian Prime Minister Brian Mulroney.

"NAFTA guaranteed that Mexican products would gain access to the world's largest market," said former Mexican President Carlos Salinas. "For the first time, labor and environmental issues—the latter an issue on which Canada taught us much—had a place in a trade agreement." He also recounted the process leading up to NAFTA, recalling the importance of reducing Mexico's debt, unifying the government, and rallying the public before signing on.

Mulroney endorsed similar future agreements such as the pending FTAA, which potentially would encompass 800 million people in 34 countries when ratified. "The power of a good idea should never be underestimated," he said. "It should happen again."

MAKING AN IMPACT

Dozens of key business leaders, academics, and current and former government officials convened for two days of panel discussions. Following the morning's speeches by President Bush, Prime Minister Mulroney, and President Salinas, the first panel's speakers called NAFTA a revolutionary event representing a paradigm shift for the three nations led by three visionary leaders.

Yet speakers also addressed the challenges facing NAFTA, including the need for more work to strengthen dispute-resolution mechanisms, to increase the openness of borders among states while strengthening exterior borders, and to have agricultural trade open and free of subsidies. Another challenge will be to ensure that certain regions, particularly the southern sections of Mexico, are not left behind.

LINKING NORTH AMERICA

While the "big idea" behind the European Community was the prevention of another European war, many found it difficult to see the "big idea" behind NAFTA, beyond the obvious strengthening of trade relations. NAFTA institutions do exist, and the three states do submit to them, but these institutions are neither democratic nor transparent. The question was raised as to whether the concept of continental security

The question was raised as to whether the concept of continental security could be the new idea around which NAFTA could move forward, especially if the tradeoffs between continental democracy and sovereignty are addressed in the process.

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could be the new idea around which NAFTA could move forward, especially if the tradeoffs between continental democracy and sovereignty are addressed in the process.

Numerous speakers throughout the conference noted that, in practice, NAFTA represents two separate bilateral agreements (between the United States and Mexico, and the United States and Canada), more so than one trilateral agreement as was intended. For example, there is little military collaboration between the United States and Mexico compared with the stronger military cooperation between the United States and Canada. Panelists discussed the call for a reduction in the perceived unilateralism of the United States regarding border issues with Canada and particularly Mexico. Some also suggested that potential benefits would result from stronger convergence on many elements of tax policy.

GETTING GLOBALIZATION RIGHT

A panel on globalization highlighted the growing income inequality, both within and between Mexico and the United States. Income disparities in Mexico are among the highest in the world with many elements and geographic regions failing to participate in the market economy, a situation which, in turn, drives migrants to the United States in search of jobs.

Panelists also said that income inequalities have been a major source of Mexican migration. For example, the rural population comprises one fifth of Mexico's total population, yet it contributed only about one twentieth of GDP. Meanwhile, U.S. job creation of 1.2 million jobs per year exceeded growth in the U.S. labor force—a gap that Mexicans living in the United States helped fill. Six million of the Mexicans in the United States send about \$9 billion to Mexico each year.¹

In particular, speakers pushed for the building of stronger institutions in NAFTA to address governance problems and corporate disputes. Panelists observed that, regardless of whether the NAFTA countries develop a common currency, interest rates and monetary policy in Mexico, the United States, and Canada are beginning to converge.

INTO THE FUTURE

While NAFTA addresses business relations, some of the related and more difficult issues have yet to be tackled, such as migration, labor, security, transportation, and monetary policy. Regarding NAFTA as a model for future agreements, speakers emphasized that negotiators should take a long-term approach to the agreement, seek to avoid special status treatment for politically powerful industries, and focus on building better institutions for the resolution of disputes. Speakers also stressed the importance of involving

civil society, NGOs, and businesses, big and small, to build a more powerful constituency for a better agreement. Panelists suggested that NAFTA be seen as a model, along with the creation of the European Community, for the creation of substantial regional free trade agreements in other parts of the world.

NOTES

1. Recent estimates indicate that there are over nine million people born in Mexico who live in the United States and that they send more than \$14.5 billion per year to Mexico. U.S. Census Bureau, *Census 2000*; and *Receptores de Remesas en México*, Washington, D.C.: Inter-American Development Bank, Bendixen and Associates, and the Pew Hispanic Center, 2003.

Conference Agenda

Day One **The Ronald Reagan Building Atrium Ballroom and The Woodrow Wilson Center Joseph H. and Claire Flom Auditorium**

- 8:45 Doors Open at the Atrium Ballroom of the Ronald Reagan Building and International Trade Center
- 9:30–11:30 President George Bush, Prime Minister Brian Mulroney, and President Carlos Salinas speak on “NAFTA Past, Present, and Future”
- 2:30–3:45 **NAFTA at TEN: Yesterday, Today, and Tomorrow—Lessons Learned and Unmet Challenges**
Chair: Stephen Randall, University of Calgary, Canada
Gustavo Vega Canovas, El Colegio de México, Mexico
Michael Hart, Carleton University, Canada
Gary Hufbauer, Institute for International Economics, United States
Commentators: Robert Mosbacher, Mosbacher Energy, United States
Peter H. Smith, University of California, San Diego, United States
- 4:00–5:15 **Future Directions for NAFTA: The Possibility of Closer Economic, Political, and Social Ties**
Chair: Thomas F. “Mac” McLarty III, Kissinger-McLarty Associates, United States

Rafael Fernández de Castro, Instituto Tecnológico
Autónomo de México, Mexico

Wendy Dobson, University of Toronto, Canada

Jeff Faux, Economic Policy Institute, United States

Commentator: Charles F. Doran, Johns Hopkins
University Paul H. Nitze School of Advanced
International Studies, United States

Day Two The Woodrow Wilson Center Joseph H. and Claire Flom Auditorium

9:00–10:30 NAFTA as a Laboratory for Future Trade Agreements

Chair: David Edgell, University of Missouri—
Kansas City, MMG Worldwide, United States
Kishore S. Gawande, Texas A&M University, United
States

Antonio Ortiz Mena, Centro de Investigación y
Docencia Económicas, Mexico

Daniel Schwanen, Institute for Research on Public
Policy, Canada

Commentator: Stephen Farrar, Guardian Glass,
United States

10:45–12:15 NAFTA and Getting Globalization Right: Poverty, Inequality, and Trade

Chair: Joseph Tulchin, Woodrow Wilson Center,
United States

Carlos Heredia, Mexican Council on Foreign
Relations, Mexico

Albert Fishlow, Columbia University, United States

Alan Alexandroff, University of Toronto, Canada

12:30–2:00 Luncheon in the Wilson Center Dining Room

Keynote Speaker: James Derham, Deputy
Assistant Secretary of State for Mexico, Canada, and

Economic Affairs

Comments by: Bertin Côté, Canadian Embassy,
and Mario Chacón, Mexican Embassy

- 2:00–3:00 **NAFTA and a North American Labor Market:
Migration, Wages, and Labor Rights**
Chair: Maria Echaveste, Nueva Vista/United Farm
Workers, United States
Frank Bean, University of California, Irvine, United
States
Phillip Martin, University of California, Davis,
United States
Commentator: Sidney Weintraub, Center for
Strategic and International Studies, United States
- 3:00–4:00 **NAFTA: Trade, Economic Integration, and
Security**
Chair: George Haynal, Canadian Council of Chief
Executives, Canada
Lorraine Eden, Texas A&M University, United States
Guadalupe González, Centro de Investigación y
Docencia Económicas, Mexico
Thomas Courchene, Institute for Research on
Public Policy and Queen's University, Canada
Commentator: Irwin Altschuler, Manatt & Jones
Global Strategies LLC, United States
- 4:15–5:15 **NAFTA: Democracy, Sovereignty, and the
Challenge of a North American Community**
Chair: Peter Hakim, Inter-American Dialogue,
United States
Anthony de Palma, *New York Times*, United States
James Robinson, Instituto Tecnológico Autónomo
de México, Mexico
Commentator: Gordon Giffin, McKenna Long &
Aldridge, United States

Susan Sylvester

Good morning.
My name is Susan Sylvester and I am general manager of the International Trade Center for the U.S. General Services Administration, the owner of the building.

I would like to welcome you to the Ronald Reagan Building and International Trade Center to join in this special recognition of the ten-year anniversary of NAFTA.

The International Trade Center was established to create and enhance opportunities for American trade and commerce with other nations. And NAFTA certainly plays a pivotal role in the activities and services that take place at the International Trade Center.

For example, in January 2003 we will host a three-day conference for leaders of the 60 World Trade Centers in the United States, Canada, and Mexico. That conference will help small companies throughout the NAFTA countries develop new tools and networks to increase their international business and trade.

One of the key organizations located at the International Trade Center, and a co-sponsor of today's program, is the Woodrow Wilson International Center for Scholars, and we are very glad to cosponsor this event and welcome the distinguished visitors.

At this time, I would like to introduce Ambassador Joseph Gildenhorn, Chairman of the Board of Trustees of the Woodrow Wilson International Center for Scholars.

Joseph Gildenhorn

Good morning. As Chairman of the Board of Trustees for the Woodrow Wilson International Center for Scholars, I am pleased to welcome all of you to this major conference marking the tenth anniversary of the signing of the North American Free Trade Agreement.

The Wilson Center commemorates the ideals and concerns of President Woodrow Wilson by bridging the world of ideas and the world of policy. Scholars and policymakers are provided with an environment where they can pursue research and a constructive dialogue concerning the most important issues in public and international affairs. In North America, I can think of few issues that merit our attention more than the unprecedented cooperation between Canada, the United States, and Mexico that began with the signing of NAFTA.

In this spirit, the Wilson Center has worked to turn the idea of this conference into two days of formal presentations, panel discussions, and an informed dialogue. None of this would have been possible without the thoughts, insights, and support of our many cosponsors.

The Wilson Center is pleased to act as host of the conference. Today's event is cosponsored by the Wilson Center, the Ronald Reagan Building and International Trade Center, the Power Corporation, the Institute for Research on Public Policy, the George Bush School of Government and Public Service, CN, North America's Railroad, the Center for Strategic and International Studies, the Canadian Embassy, and the Canadian American Business Council. It is true that many hands make light work, and we hope that together we have established what will be a path-breaking and inspired conference.

It is an honor to welcome former President Bush, former Prime Minister Mulroney, and former President Salinas. It is rare to be in the company of just one leader who has changed the world, let alone three. It is a particular pleasure to be on the stage with my old boss, President Bush. I had the great privilege of serving the president and through him the American people as his ambassador to Switzerland. It gave me a first hand opportunity to see this incredibly skillful president in his role as America's master diplomat.

Let me now introduce the president and director of the Wilson Center, former Congressman Lee Hamilton, who, with more than thirty years of public service, has demonstrated his own extensive gifts for foreign policy and diplomacy.

Lee Hamilton

Good morning to all of you. I am pleased to welcome you to our conference, NAFTA at Ten, marking the tenth anniversary of the signing of the North American Free Trade Agreement.

I would like to add my thanks to Joe Gildenhorn's, to all the organizations that have worked closely with us to—as Joe put it—turn an idea into what we hope will be an outstanding conference.

Like Joe, I am honored to have these three important and prominent world leaders on the dais. Woodrow Wilson might have seen it as a step toward his own vision for an international community.

Before turning to the program, let me say just a word about how the idea for today's conference came about. It all started with a casual conversation in a hotel in Rome. Novelists often suggest that great ideas are the product of something a bit more alcoholic, but in this case coffee and conversation with Prime Minister Mulroney did the trick. The prime minister had helped pull together a conference marking the tenth anniversary of the Free Trade Agreement between the United States and Canada, and hoped to see a similar effort for NAFTA. The rest is now almost history, and Prime Minister Mulroney deserves the credit for the concept behind the conference.

While we mark the tenth anniversary of the signing of NAFTA, we also look to the future. Today, there are a number of bilateral and regional trade agreements that are being negotiated or considered. China and Japan have both proposed seeking free trade areas that include large parts of Asia. Early next year, the United States is expected to start negotiations on a Central American Free Trade Agreement. Brazil and the United States now chair an effort to forge a Free Trade Agreement for the Americas. And, of course, there are the overarching multilateral negotiations launched last year in Doha, Qatar.

Over the next two days we aim to learn lessons from NAFTA that will help us as we shape the future of free trade among nations. Our panels—featuring distinguished experts from the three countries—will look at how NAFTA has deepened ties in North America, and how we might use NAFTA as a laboratory for an increasingly integrated world.

We are particularly pleased to have the help of the three principals who made NAFTA a reality. All of us in this room are honored by their presence. To introduce these three leaders, we have three other distinguished guests who are notable in their own right.

First, I welcome a good friend of long standing, the Honorable Michael Wilson. Michael Wilson has had distinguished careers in government and business. He is currently the president and CEO of Brinson Canada, one of Canada's premier investment firms. He is also the director of a number of prominent companies, including Amoco Corporation, Manulife Financial, and Rio Algom Limited. Before entering the private sector, Mr. Wilson held senior federal cabinet posts with the government of Canada in Finance, Industry, Science and Technology, and International Trade. Negotiating NAFTA was very much part of his portfolio. Mr. Wilson...

Second, I welcome another friend, whom I first met standing in a line of Congressional candidates waiting to meet President Lyndon Johnson: Ambassador Jim Jones. Jim and I served together for many years in the House where he was a leader in seeking to balance the federal budget. His distinguished career also includes holding the presidency of the American Stock Exchange and serving a term as Ambassador to Mexico. He is now a partner in his own firm, Manatt-Jones. In his private sector life, Jim focuses his business development advice on Mexico and Latin America. Mr. Ambassador...

And finally, I welcome a new friend, Dean Richard Chilcoat from the George Bush School of Government and Public Service at Texas A&M University. Before taking the helm at the George Bush School, the dean had a distinguished and decorated forty-two year career in the U.S. military. Much to the liking of Woodrow Wilson, he is at home in the fields of policymaking and academics—Dean Chilcoat received his MBA from Harvard and went on to teach at West Point. He has served as president of the Army War College and the National Defense University, and serves on the Board of Advisors at the Naval Postgraduate School. As a former basketball player, what caught my eye is that Dean Chilcoat was captain of the varsity basketball team at Army under a coach whom I know well—Bobby Knight. We look forward to hearing from Dean Chilcoat about the exciting work that is being done at the new George Bush School at Texas A&M. Dean Chilcoat...

Michael Wilson

I am honored to introduce the Right Honorable Brian Mulroney, prime minister of Canada at the time of both the NAFTA and FTA trade agreements.

Mr. Mulroney will present to us a broad perspective of these trade initiatives together with his view of future trade directions.

I thought that it might be helpful to provide some of the context within which this earlier negotiation occurred.

Trade relations with the United States are always controversial within Canada, dating from the 1911 election when the Liberal government of the day ran on the issue of U.S. free trade and was defeated by the Conservatives. Since that time, the issue has always been a tender one, something which successive governments treated with great care.

That feeling certainly prevailed in the 1980s.

Prime Minister Mulroney approached it with realism, vision, and wisdom.

Realism, because he knew it would be very controversial and likely divide the country.

Vision, because he understood the importance of the economic relationship with the United States and had the good judgment to visualize the very positive impact of greater access to the large U.S. market.

And wisdom, to manage the issue with a delicate balance of raw energy, political judgment, and historical perspective.

He was correct on all three.

Free trade became the defining political issue of the day. It was controversial, highly emotional, and generated hard positions on both sides. Free trade was *the* issue in the 1988 election, almost to the total exclusion of anything else. The country was absorbed by it; little else mattered.

Two weeks before the election we were in third place facing almost certain defeat and a consequent loss of the Free Trade Agreement. With a heroic effort, the Mulroney government was returned, and with a substantial majority.

I can truly say to you without the commitment, understanding, vision, and political leadership of Brian Mulroney, the election would have been lost, the Free Trade Agreement would have died, and NAFTA would never have been

an option for Canada.

Ladies and gentlemen it gives me great pleasure to present to you the Right Honorable Brian Mulroney, 23rd prime minister of Canada.

Prime Minister Brian Mulroney

Exactly one month after my birth, Winston Churchill described the Canadian-American relationship in memorable terms: “That long frontier from the Atlantic to the Pacific oceans, guarded only by neighborly respect and honorable obligations, is an example to every country and a pattern for the future of the world.”

In the 63 years since Churchill spoke, neither of our countries has done anything to diminish the expectations of excellence and cooperation he forecast.

For Canada and the United States, the post-cold war world offers unique opportunities and daunting challenges. We begin from a common heritage of democratic traditions and a defense of liberty. There are reminders of that from the trenches of one war to the beaches of the next, places inscribed in the history of valor, where Canadians and Americans have fought together, where Canadians and Americans have died together, in the defense of freedom.

It was on the basis of these shared values and common achievements that, as a new prime minister in 1985, I signalled to President Reagan that Canada was interested in negotiating a comprehensive free trade agreement with the United States of America.

I was aware that similar attempts by Canadian prime ministers had foundered painfully over the previous 100 years, in large measure because of a reality described by Prime Minister and Nobel Laureate Lester B. Pearson: “The picture of weak and timid Canadian negotiators being pushed around and browbeaten by American representatives into settlements that were ‘sellouts’ is a false and distorted one. It is often painted, however, by Canadians who think that a sure way to get applause and support at home is to exploit our anxieties and exaggerate our suspicions over U.S. power and policies.”

I knew we would have to confront a powerful American administration at the bargaining table and an influential clutch of naysayers at home. The fact that the U.S. population base and economic power was roughly 10 times ours did nothing to soften my critics’ charges that, if successful, this would make Canada the 51st state.

At that time, access to our most important market was being threatened. A severe wave of protectionism swept through Congress like a bitter November wind, and about 40 percent of our exports to the United States were subject to quotas, “voluntary” restraints, and other restrictions. As I indicated to the House of Commons, by way of illustration of the mood and atmosphere that existed in the United States, the Ottinger Bill, passed three successive years by the House of Representatives, sought to destroy the Auto Pact, the heart of Ontario’s economic power in Canada. The Americans also demanded punitive action against Canadian lumber, steel, uranium, cement, subway cars, fish, in fact, virtually all of our exports. There was a crisis a month for one Canadian exporter after another, as new trade barriers were erected against Canadian products and new legal interpretations were advanced to inhibit Canadian access to the U.S. market. That is the challenge we faced at that time and I believed the negotiation of a bold new trade agreement offered the most realistic solution on behalf of the people of Canada.

In 1987, following more than two years of difficult negotiations, we reached agreement. President Reagan and I subsequently signed the massive and quite radical agreement, which came into effect on January 1, 1989.

In Canada, we had to endure a vicious three-year onslaught and unprecedented vitriolic personal attack—and I had to call and win a brutal general election campaign—before we could enact the agreement into law. According to our opponents it was going to be an unrelieved disaster and Canada was going to lose its shirt. So what happened?

Well, last year, two-way trade in goods and services between our countries exploded to \$700 billion. It is now \$2 billion a day, more than \$1.3 million per minute, every day of the year, the largest amount of commerce between any two nations in world history.

Canada is the number one export market for 37 of the American states, and Canada buys more goods from the United States than the 15 countries of the European Union combined. America now exports three times as much to Canada as to China, Hong Kong, and Taiwan combined.

The value of goods crossing the Windsor-Detroit border point alone is greater than total U.S. trade with Japan.

Investment has grown along with trade. As Canada’s exports to its NAFTA partners increased 95 percent from 1993 to 2001, average annual direct investment inflows averaged \$21.4 billion during the same period, four times the average of the seven years prior to NAFTA.

And trade means jobs. Approximately four new jobs in five in Canada have been created by trade since 1993, the year the present government took office.

Canada is the number one export market for 37 of the American states, and Canada buys more goods from the United States than the 15 countries of the European Union combined. America now exports three times as much to Canada as to China, Hong Kong, and Taiwan combined.

Based on the Canada-U.S. experience, NAFTA has opened up the Mexican market of 100 million people, creating the largest, richest, single market in the world—400 million people accounting for one-third of the world's output, approximately \$11 trillion per year.

The first act in a visionary hemispheric trade trilogy was now complete, made possible throughout the process by the exceptional friendship and support towards Canada of President Reagan and Vice President Bush.

A little later, the new president of Mexico, Carlos Salinas, began articulating his impressive program for the modernization of the Mexican economy.

The cornerstone of that great initiative was to be a Free Trade Agreement between Mexico, the United States, and Canada.

In Mexican terms, the concept was revolutionary and marked a dramatic break with many past policies.

In global terms, the concept was unusual in that it marked the first attempt to link, within a free trade zone, the economies of two mature, wealthy, trading countries (both G-7 nations) with that of the equivalent of a developing nation, with relatively limited democratic achievement in terms of politics, public policy, the judiciary, and business leadership—when compared with the United States or Canada.

Fortunately, the White House was occupied by President George H. W. Bush, a visionary leader, whose skills would end the Cold War and ignite the tremendous promise of a dramatic new reach into Mexico and Latin America, bringing stability and prosperity in its wake.

The negotiations were arduous, complex, and challenging. In spite of the political risks, the three leaders envisioned the long-term benefits and NAFTA was successfully concluded and signed in San Antonio in October 1992 by President Bush of the United States, President Salinas of Mexico, and myself.

In all of our countries, some leaders from other parties supported us all. I know that the indispensable leadership of President Bush was later supplemented by the efforts of Mac McLarty, Richard Fisher, and many others in the new Clinton administration, under the direction of the president, to ensure passage of the NAFTA legislation.

Based on the Canada-U.S. experience, NAFTA has opened up the Mexican market of 100 million people, creating the largest, richest, single market in the world—400 million people accounting for one-third of the world's output, approximately \$11 trillion per year.

This constituted the second act in the trilogy.

Mexico's exports have increased by more than 220 percent between 1993 and 2001 and Mexico's average annual capital inflow has reached almost \$12 billion, three times the annual amount in the seven years prior to NAFTA. As a result, since NAFTA, Mexico has now surpassed Japan as America's number two trading partner even though its economy is one-twelfth the size of Japan's.

The rise of trade between Mexico and Canada, countries with modest economic links prior to NAFTA, was dramatic, and is now worth more than \$10 billion a year, our sixth largest trade partner.

The fear mongering of those who predicted massive losses of jobs, the curtailing of sovereignty, a race to the bottom in environmental and social policy has proved hollow.

Our countries are stronger, our economies more robust, our peoples more prosperous, our social structures more resilient, our capital markets more stable, our roles in the world more vigorous as a result of NAFTA.

We have, in short, accomplished much. There are however new challenges that face us and opportunities open to us as we try to manage an intensifying economic relationship and cope with increasing threats to our shared values and security.

These issues are inseparable. North America is more than a free trade area. It is a community of values motivated by a deep belief in democracy, economic opportunity, tolerance, and the rule of law. It is three countries sharing a critical infrastructure of pipelines, telecommunication networks, rail, and power lines. It is three closely integrated economies whose prosperity depends on free flows of people and goods between them.

It is, in short, an area whose social, economic, and national security is indivisible. Our economic security relies on seamless borders within North America. Our security against global terrorism and criminality can only be ensured by acting together to protect our external borders before threats can reach any of our territories. Our values are only safe if we insist on practicing them and make them a compelling example to the world. It is essential therefore that we dedicate ourselves to protecting our shared continent together and to work together in the world, acting in defense of our beliefs.

Let me list some of the tasks I see lying ahead for us in North America.

First and foremost, the NAFTA partners must dedicate themselves as a matter of the greatest urgency to building an area of security in North America, one that denies terrorism a foothold on our continent and ensures uninterrupted legitimate flows among us. Such common action is also essential to allow us to protect the great north-south flows of goods, people, and technology that underpins our shared prosperity. Our internal borders will only be smart if our external perimeter is secure. We may well need new political institutions (ministerial councils) to heighten vigilance and direct concrete action which gives all of North America more certainty against the unprecedented threat of terrorism. We must make our internal borders work in our shared interest rather than succumbing to the false

We must also protect our shared economic security against political expediency. An economic relationship that is so close and so strongly based in mutual reliance should not be subject to the misuse of draconian trade instruments.

temptation of sealing them off against each other to protect security. Doing so would be a victory for terrorists.

We must also protect our shared economic security against political expediency. An economic relationship that is so close and so strongly based in mutual reliance should not be subject to the misuse of draconian trade instruments. The sometimes arbitrary application of trade remedies in North America can have the most hurtful consequences on communities and on whole regions in our countries. They serve no one but special interests and hurt consumers. Though the application of such measures has fallen significantly since the conclusion of NAFTA, each instance is like a violent lurch in a stable relationship, a rude assault on the fundamental goals of a grand continental partnership. In my view, we should press for a common standard of trade remedy embracing the rule of law rather than the rule of power. There are other more effective means to resolve our trade disputes, such as appeals under what are highly compatible national competition laws. We should, in any event, rely on and reinforce our shared mechanisms to resolve disputes. These have worked well; made more permanent and properly resourced, they could perform even better.

Also important to our shared welfare in North America is the flow of services, technology, and knowledge. These are conveyed by people. Assuring their movement across our borders should be the focus of renewed attention as we put in place the new structures we need to protect our security.

Our economies are now closely connected and interdependent, a reality that needs to be better reflected in the way our governments manage our national affairs and in the way they regulate economic activity.

They should work together to ensure that while our national systems of regulation serve to protect our citizens—and are fully respectful of our different constitutions—they are also as compatible as possible in order to increase the efficiency of our economies and enhance our global competitiveness.

The future is also full of possibility for achieving a closer sense of community among our three countries—through education, culture, shared infrastructure, and the collaboration between local communities. Our governments should also engage more vigorously in the effort to define a vision that will benefit all our peoples, a vision of a vibrant harmonious continent.

It is therefore vital that the third act in the trilogy now be completed. After a decade of tremendous progress towards democracy throughout Latin America, uncertainty and unpredictability are now creeping into fragile democratic institutions from Venezuela to Brazil to Argentina. They

must now be drawn together into greater prosperity and deeper democracy by a powerful act of political leadership. If this occurs, one day, NAFTA's successor—the Free Trade Area of the Americas—shall include 34 countries and 800 million people with an annual GDP of \$12.5 trillion and the United States, Canada, and Mexico will have defined a powerful role for themselves at the very heart of a new free trade zone, stretching from Montreal to Monterrey, Point Barrow to Patagonia, Hawaii to Honduras, Easter Island to Nunavut. The geopolitical and international security implications of this new grouping will be profoundly beneficial for us all.

NAFTA is about more than North America. We are countries of the Americas. I say this proudly as the leader of the government which made Canada a member of the Organization of American States in 1990.

Canada's decision to join the OAS was a historic one, reversing long standing Canadian policy and based in our confidence that we were at home in the region, that democracy and respect for human rights was embedded in the hemisphere, that the countries of the Americas were committed to the rule of law and open economies. The decision was a prelude to Canada's finally assuming a leadership role in its own hemisphere.

Led by wealthy and powerful G-7 nations—the United States and Canada—societies that understand free trade agreements must initially allow poorer economies to prosper quickly—the democracies of the hemisphere are now committed to social equity, freer markets, less state intervention, and a firmer rule of law.

They want to reap the advantages that these offer their societies, but all agree that free trade, particularly access to the great markets of NAFTA and Brazil, will be essential if they are to be able to do so. That is why the countries of the hemisphere, inspired by the vision first articulated by President Reagan, agreed to a Free Trade Area of the Americas.

President Bush carried forward that vision in his powerful Enterprise for the Americas initiative in 1990 and the leaders of the hemisphere launched the FTAA negotiations four years later.

Our governments have agreed to conclude the FTAA by 2005, a little over two years from now. Much hard negotiation lies ahead. Some countries of the Americas have made confident strides towards open economies, but a number have stumbled and others face difficult political and social choices. The prospect of a successful FTAA agreement is the strongest support for their efforts that we could give them. It has the capacity to change their lives in dramatic fashion and forever.

It is our privilege, in North America, to have made a success of free trade. It is now our responsibility to share that success.

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The Americas are our neighborhood. Our security depends on our neighbors' capacity to provide stability under the effective rule of law. Our prosperity will be enhanced as theirs is assumed.

The FTAA negotiations are at a critical stage. We have the opportunity, as the United States and Brazil assume chairmanship of the process, to make them a historic success.

We must not underestimate the complexity of the task, particularly given that the global negotiations on new WTO rules are also under way.

Nor should we forget that the countries of the Americas are pursuing two linked goals: democracy and economic growth.

The leaders of the Americas agreed at the Quebec City summit last year on the bond between the freedom to trade and the freedom to enjoy democratic institutions.

It is important, in my view, that the FTAA re-assert that freedom—economic and political—is indivisible. The agreement should provide that the benefits of free trade are open only to democracies living under the rule of law and with respect for human rights.

What then are some of the key issues to resolve if the FTAA is to become reality?

One is the need to guarantee access to our markets for the exports that matter most for our partners, particularly the export of agricultural commodities. This ought to be the first step on “the ladder of economic prosperity” that poor countries desperately seek to take. But the rich countries pay out more than \$300 billion a year in farm subsidies, thereby enabling farmers in some industrialized countries to sell overseas at 20 percent below the actual cost of production, and consequently killing off any hope for developing countries to compete effectively. Just to be sure, in the United States there are further tariff barriers that make it doubly tough for many third world farmers to sell any of their produce here at all.

We will, in turn, need to be assured that their markets are open to us, particularly to the provision of services by North American suppliers, whose participation will bring innovation and efficiency in their wake.

The agreement should provide rules that protect the rights of foreign investors against arbitrary and discriminatory action.

The agreement should establish effective mechanisms to resolve disputes among us. The NAFTA and the WTO provide rich experience on which to draw to make such a system both responsive and authoritative.

The agreement should provide for the movement of people, allowing professionals much greater freedom to provide services across the region, students to benefit from a wider range of learning opportunities, and our

citizens to share in the great cultural gifts of our hemisphere.

The freedom of movement across our borders, both of goods and people, is elemental to the notion of free trade. In the world of the twenty-first century, however, such a freedom must not be left open to abuse. It must be accompanied by agreements to eliminate threats to our security, whether from global criminality or its Siamese twin—global terrorism. The commitment to fight the illegal traffic in people, drugs, and capital must be intensified as part of our efforts to build a community based on free trade in the hemisphere.

Lastly, countries of the FTAA should establish fora where environmental and labor issues can be studied and reviewed among our governments, where best practices can be shared and where those who do not honor their own laws respecting these matters can be held to account by their peers.

The agenda I have sketched here is ambitious. Some will say it is unattainable. But the remarkable thing about the FTA and NAFTA is that success emerged despite heavy obstacles and fierce opposition. The leadership and perseverance that forged those agreements are paying dividends today for all three partners. The power of a good idea should never be underestimated. It could happen again. It should happen again.

We who have benefited so dramatically from a decade of free trade in North America have a special role to play. We are able to offer our success as an example of what is possible.

Access to our markets will be critical to assuring stability and growth in our sister democracies now passing through a period of uncertainty, sometimes of stagnation and turmoil.

NAFTA's place will evolve, depending on the outcome of these trade negotiations. It will continue to be a critical bond among the countries of North America; its importance in the hemisphere as an example is unquestioned; its role as a magnet will be compelling.

Ten years on, there is much to celebrate in what we North Americans have accomplished.

Ten years from today however we must gather again to celebrate the great achievement of a new generation of political leaders: the binding together of all peoples and countries of the western hemisphere who believe in freedom and practice democracy in a vast free trade zone, greater than the world has ever before seen, which will ensure growing prosperity and durable social justice for many, long deprived of both. And in the process, we will contribute to the political stability and peaceful progress for all peoples, becoming as Churchill predicted, a model for all mankind.

The commitment to fight the illegal traffic in people, drugs, and capital must be intensified as part of our efforts to build a community based on free trade in the hemisphere.

James Jones

It's a great pleasure to see many former colleagues from the government—Senator Moynihan, Secretary Mosbacher, Mac McLarty, and others. I want to congratulate the Woodrow Wilson Center for hosting this perspective on what is about to be the tenth year of NAFTA in existence. For those of us who played a small role in trying to convince our U.S. Congress to pass and implement NAFTA, what we promised has been far exceeded by what has been delivered. But yet the potential benefits, both economic and otherwise, have barely been accomplished.

I was honored to participate in the responsibilities of helping to implement NAFTA in Mexico. When you look at it, however, you have to recognize that without these three giant leaders, it probably would never have happened. It was their vision, their political courage, and their tenacity to both imagine and to negotiate this agreement which has fundamentally altered the relationships of the three North American countries. In the course of any nation's history, there are just a handful of events that are true turning points. One of those events, at least insofar as Mexico's history is concerned, was the passage and the implementation of NAFTA.

And looking back at those years, it is my belief that there was no one better equipped to move this turning point in history in Mexico than former President Carlos Salinas. He had the combination of a very impressive understanding of economics with a practical knowledge of politics, and that combination enabled him to convince what was then a rather cosy, very powerful, and closed business leadership in Mexico, and to persuade the political establishment that opening Mexico was a good thing to do.

So beginning in 1988 when President Salinas was elected, Mexico was truly one of the most closed economies in the world. Today it is one of the most open. Although a democracy, it was perceived as a closed political system. The opening of Mexico to free market economics clearly resulted in today it being one of the most competitive political democracies in the world. And while the successors of each of these gentlemen have added to the richness of NAFTA, it was they who started it all, and without Carlos Salinas de Gortari, I believe it would not have started at that time in the history of Mexico.

I am pleased to present former President Carlos Salinas.

President Carlos Salinas

I want to express my appreciation to the Woodrow Wilson International Center for Scholars for the invitation to participate in this conference on NAFTA's ten years, and in particular my recognition to its director, Lee H. Hamilton, for his initiative to make this conference happen.

YESTERDAY: THE BEGINNING

The North American Free Trade Agreement (NAFTA) was born on November 22, 1988. Despite the anticipation, it was stillborn.

On that date, I met with the president of the United States, George Bush, in Houston, Texas. We were both presidents-elect. In a few days, we would each begin our respective mandates. This simultaneous commencement of administrations in Mexico and the United States occurs only once every 12 years. It was to be a promising meeting.

I found the future U.S. president to be a respectful man, someone who understood the sensibilities of our country, someone with a clear plan for the relationship. I also had mine. On the issue of trade, President-elect Bush went right to the point: he proposed the establishment of a free-trade zone between Mexico and the United States. Canada and the United States had just negotiated an agreement for free trade. This proposition came like a thunderclap. We had not anticipated it because our attention was riveted on the unbearable weight of our foreign debt and its service: Mexico's primary and fundamental task was to resolve that excessive weight. My plan was to reduce our external debt, not renegotiate its payment. The priorities of the presidents-elect did not match.

So I said no to NAFTA, and George Bush accepted our proposal that Mexico begin debt negotiations. That process took up all of 1989. In the end, we achieved the first reduction of a huge foreign debt in Latin America, an outcome never before attained. U.S. Secretary of the Treasury Nicholas Brady and Secretary of Hacienda Pedro Aspe played innovative roles.

Thus, NAFTA disappeared at the moment of its birth during that meeting in Houston. But President Bush had had the vision to suggest it as a priority. It was not the first time: ten years earlier, President Ronald

[W]e agreed that we would deliberately demarcate the bilateral agenda, so that no part of it—nor any actor or unforeseen circumstance—would be able to define the overall relationship. In practical terms, this meant that differences over specific issues must not contaminate the bilateral relationship, much less divert its general direction. This clarity was especially propitious given the tensions that we would experience during the NAFTA negotiations.

Reagan had proposed to another Mexican president that they negotiate a free trade agreement. The response of the Mexican leader was forceful: “Our children and our grandchildren,” he vowed, “will never see the day that we sign a free trade agreement.” It did not prove an accurate prediction because NAFTA became reality—not after two generations, but after a mere two administrations.

During these ten years—14 if we count from the first proposal—NAFTA, as it matured, has had some “near-death” experiences, dictated by circumstances and actors, sometimes south of this border, sometimes here. To illustrate these cycles, suffice it to say that NAFTA was proposed in November 1988, it was signed in November 1992, and both Congresses approved it in November 1993 [Ed. note: refer to p. 35 for exact dates]. The process took five years. The negotiation and the signing of the treaty took place under the worst of conditions within the United States—in the midst of the Gulf War, an economic recession, and a presidential campaign. During such complex times, President Bush never indicated he might postpone it, and he always firmly favored its completion, even at the most difficult moments. In that extremely adverse context, we forged the first trade agreement between the industrialized North and the developing South.

During that intense negotiation, a change took place in both the way Mexico and the United States did politics with each other and in the fundamentals of foreign relations. During those years, Mexico twice allied itself with the U.S. government: first in the struggle to achieve fast track authority, and later, to win U.S. congressional approval for the agreement. Twice we were adversaries: during the NAFTA negotiations and later during discussions on the side agreements on environment and labor.

In this context of ally-adversary, the Mexican government, for the first time in history, had to assume the challenge of playing politics in the United States and play them according to its rules of the game. Throughout the process, we knew that within the Mexican government, interests were not monolithic nor, we learned, were they in the United States.

From the beginning of my talks with President Bush, we agreed that we would deliberately demarcate the bilateral agenda, so that no part of it—nor any actor or unforeseen circumstance—would be able to define the overall relationship. In practical terms, this meant that differences over specific issues must not contaminate the bilateral relationship, much less divert its general direction. This clarity was especially propitious given the tensions that we would experience during the NAFTA negotiations.

In this singular process, we, the Mexicans, entered the labyrinths of U.S. political and economic power. We had to learn—and learn quickly—

to play politics with them without creating precedents that might be used against us or argued as a pretext for the Americans to interfere in Mexico's domestic matters. On U.S. soil, we had to address multiple fronts: direct dialogue with the White House and the federal government, as well as with members of Congress and their aides, to say nothing of the political parties, the press, the business community, labor unions, nongovernmental organizations, Latinos, governors, local legislators, academics, and intellectuals, and—within each of those groups—their various factions. It was necessary to make alliances, neutralize adversaries, and take care during the process not to win Pyrrhic victories that might cost us the opportunity that opened on the horizon for Mexico. In particular, when you negotiate, you win and lose, so you must avoid the paralyzing fear of accepting your adversary's reasoning. We had to “keep our eyes on the prize,” and above all, not lose sight of our guiding principles. It was a process of unprecedented intensity.

We achieved the reduction of the debt in 1989. Thanks to that, the foreign debt dropped during my administration from 44 percent of GDP to 16 percent, which eliminated its excessive burden on Mexico's growth. At that time, we believed that this single action would enable us to get back on the road to economic recovery. In a short time, the international political and economic reality showed us that we were wrong.

At the end of 1989, the world reality changed drastically. We found ourselves facing a major global transformation, and with it, a new political scenario for Mexico. In the world arena, the fall of the Berlin Wall and the meeting between Bush and Gorbachev in Malta confirmed the end of the Cold War. Shortly after, the so-called “Second World” would collapse (that is, the disappearance of almost the entire Socialist bloc). Most nations joined the market economy. The notable exceptions of China, Vietnam, and Cuba, with their major importance, confirmed that globalization was spreading throughout the world. The general trend toward market integration had been gestating for more than a century, and it was a definitive sign of the capitalist system. Globalization became an inevitable force.

Since the end of the Second World War, free trade had not enjoyed such wide acceptance. Just before the fall of the Wall, at the start of the Uruguay Round of GATT, that organization had 92 member countries; in a short time, another 64 countries would join or request admission, including China and Russia. In that context, 1990 marked the year that the European Union formed, with 12 countries participating. That integration scheme comprised 345 million people in a unified market with a value of US\$6 trillion. We had to confront this new political and economic reality.

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It was a change of hegemonies, in which Eastern Europe became a magnet for investment and development flows. The reduction of our debt—a notable and innovative achievement—would be insufficient for growth. We had to face globalization from an economically integrated region. Thus, the moment the negotiations to reduce the foreign debt concluded, we, the Mexicans, proposed to return to the original plan that President Bush had put forward in Houston. We let it be known: *We want trade, not aid.* So, during a visit that I made to the World Economic Forum in Davos in February 1990, I instructed the minister of commerce, Jaime Serra, to meet there with Carla Hills, the U.S. official responsible for trade negotiations. He proposed that we begin negotiations. What was the response of Carla? “Our priority is the Uruguay Round,” she affirmed. Serra was disappointed. “Don’t worry, Jaime,” I told him. “Carla has already started negotiating.”

It was impossible to ignore that the day-to-day relationship between the two nations during the final decade of the twentieth century went well beyond the commercial dimension: almost 20 million U.S. citizens were of Mexican origin. The Mexican-American community had its historical, linguistic, and genealogical roots in Mexico. At the same time, Mexico was home to the largest community of U.S. citizens residing outside the borders of the United States. Moreover, at the beginning of the 1990s, there were five million Mexicans working temporarily in the United States.

NAFTA signified a new type of bilateral relationship between neighbors that history had kept distant. It also guaranteed that Mexican products would gain access to the world’s largest market. For the first time, labor and environmental issues—the latter an issue on which Canada taught us much—had a place in a trade agreement. In short, NAFTA represented the possibility of institutionalizing cooperation and establishing a new type of relationship with the United States.

My predecessor, President Miguel de la Madrid, had taken a bold and basic step when he requested and gained Mexico’s admittance into GATT in 1986. With that action, Mexico made progress in the attempt to leave behind its closed economy with its strategy of import substitution.

Transforming the relationship with the United States was one of my goals. I wanted to emphasize the similarities while respecting the differences. During my administration, we were even able to agree to disagree.

Consciously taking the initiative to negotiate the terms to regulate the tight-knit economic relationship with our powerful neighbor to the north was a step that represented a major risk—one that ran counter to the traditional Mexican position of resistance and withdrawal when faced with proposals from the United States.

In Mexico, we had to build a consensus in favor of the negotiations. Indeed, a consensus existed, but it was in opposition. If the decision whether to negotiate the free trade agreement were to have been made by a poll, at that point, the answer would have been negative because most of the population was unsympathetic to a more intense rapprochement with the United States. Through persuasion, dialogue, and intense give and take, we managed to create a space for the discussion of the free trade agreement among the political actors and in public opinion.

Within Mexico, the promotion of the free trade agreement required the defeat of those who were entrenched against change. Corporations and the protectionist political and economic sectors, allied with the most backward enclaves of academic, partisan, and media leftists opposed the negotiation. Of course, we were accused of selling out our country, when in reality, everything indicated that we were able to reinforce its viability. However, without forgetting the lessons of history, we undeniably overcame prejudices and complexes and opened a new path in the relationship between Mexico and the United States, between the North and the South. We also counted on important allies: the modernizing currents within the PRI, the PAN, and other political and social organizations.

In the PAN, a division of opinion about the free trade agreement existed. One of its most renowned and combative members, Diego Fernández de Cevallos, gave his support from the start, as did Carlos Castillo Peraza and Gabriel Jiménez Remus, but others were categorically opposed.

In the PRD, opposition was unqualified. In New York in February 1991, the leader of that party indicated that the agreement would exacerbate Mexico's economic condition. He stated that the free trade agreement was a tool "to close the door to democratization in the country."

In civil society, some intellectuals opposed NAFTA, but others expressed their support, arguing for the agreement's significance and the need for its timely negotiation. Groups of environmentalists, among them the so-called Group of 100, fought tenaciously to have environmental protection included in the agreement.

A variety of voices opposing the agreement managed to achieve an acceleration of the rhythm of our domestic reforms and a broadening of the negotiating points on the table, particularly those relating to the environment. This pressure was undoubtedly favorable. They deserve credit for their contributions.

We carried out intense efforts in Mexico to explain and persuade. Above all, I took active steps to form a solid negotiating team. The first such step was with the government itself: it was necessary to create unity

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within the government apparatus so that the bureaucracy would understand and support the project. If we failed to do this, it could weaken our position vis-à-vis the United States. The second step was to establish a negotiating team that, although it lacked experience with a project of this size, brought together people of talent and conviction. In the Ministry of Commerce, Jaime Serra headed an excellent team, which Herminio Blanco coordinated. Pedro Aspe gave his immediate support, and in light of his excellent experience as a negotiator, the financial sector unreservedly joined the project.

It was essential to rally civil society. Thus, as a third step, we formed an advisory council composed of representatives from social groups. And as an additional step, we encouraged the organized participation of the business community in the so-called “room next door,” so that they could be part of the negotiations. In recognition that “the devil is in the details,” “for the first time in the history of the country, the various members that make up private enterprise had the opportunity and the need to meet in working groups to analyze the strengths and weaknesses of each one of Mexico’s productive sectors, and to design, together with the government, a negotiating strategy.”¹

It was also necessary to have the public involved. We decided to air a weekly radio program and broadcast special programs on television to inform the Mexican people. We were determined to pay particular attention to the universities and the centers of higher education in order to elevate the quality of the discussion, and we entered into direct dialogue with social and business organizations, in particular, those representing small and mid-sized businesses.

On April 16, 1990, the Mexican Senate summoned the general public, political parties, private associations, and the representatives of the social sector to participate in the Forum for National Consultation on Mexico’s Trade Relations with the World. Two days later, the consultation had begun. In sessions held in Mexico City, Puebla, Mérida, Mazatlán, Monterrey, and Guadalajara, lawmakers from all the political parties, in particular the PRI and the two most important opposition parties, the PAN and the PRD, debated the issue. Also participating were businesspeople, workers, campesino leaders, academics, members of a variety of social and political forces, state governors, federal and local public servants, as well as some members of the foreign service.

During both the broadcasting of our activities as well as the work that we did to achieve the free trade agreement, we avoided presenting ourselves as petitioners, victims, or dependents. Through Mexican promotional campaigns in the United States, we highlighted the advances in our development

strategy: democratization, protection for human rights, elimination of the fiscal deficit, easing of inflation, privatization by public auction, increased social spending, unilateral liberalization of trade, environmental protection, and support for grassroots organizing through the Solidarity program. We emphasized the enormous depth of our culture. We promoted Mexico's image through exhibits, such as "Mexico, Splendor of 30 Centuries," at the Metropolitan Museum of Art—until recently the exhibition with the highest attendance record—as well as through conferences featuring intellectuals and in tourist publicity campaigns.

In May 1990 after a broad national consultation, the Mexican Senate expressed its opinion in an official resolution: "The Senate of the Republic, in virtue of Mexico's geographic location, its history of trade relations, of the complementarity and potential of its economy with respect to the United States of America, recommends negotiating a free trade agreement with that country. This agreement, in contrast to a common market, will preserve the political and economic sovereignty of the country." The Senate also proposed broadening relations with Canada. The support for the negotiation of the free trade agreement was not unanimous but a majority was in favor.

Meanwhile, how did we approach Canada, the other great nation of North America? In the middle of 1990, I welcomed the prime minister of Canada, Brian Mulroney, to Mexico. During our private conversation at Los Pinos, the official residence, he told me about his experiences as the architect of the agreement between Canada and the United States, which had been finalized only a few months earlier. His comments were invaluable. He urged me to establish clearly from the very beginning what would not be negotiated in the agreement. "Fix those points clearly," he told me, "and no one will be caught unawares during the negotiation." I enthusiastically accepted that suggestion and followed it with conviction. At the end of his visit, Mulroney declared publicly that it was Mexico's "sovereign and free" decision to join the North American market.

In September 1990, Canada decided to formalize its plan to join fully in the treaty negotiations. Prime Minister Mulroney sent me a letter in which he expressed his interest in participating in the search for a trilateral trade agreement. It was a difficult and courageous decision for him, since the trade agreement with the United States was unpopular with Canadians: most, without justification, blamed the agreement for Canada's economic recession.

The teams formed. Opposite us was the United States with its formidable team. Participating intensely in it were, among others, Secretary of State James Baker and his counselor, Robert Zoellick; Commerce

[W]e reinforced the concept that a negotiation is not a zero-sum game involving annihilation, but rather a process which sometimes is of attrition but in which all parties need each other and all sides come out winners. It is competition and cooperation.

Secretary Robert Mosbacher; as well as Carla Hills and President Bush's National Security Advisor, Brent Scowcroft. Initially, John Crosbie, as Minister of International Trade, represented Canada, and, later, the talented Michael Wilson followed him. Julius Katz in the U.S. team and John Weeks in the Canadian team faced Herminio Blanco.

The first obstacle appeared when the U.S. government requested fast track authorization from the U.S. Congress. The government confronted an unexpected opposition when a coalition of anti-NAFTA opponents formed. It was a formidable group since it included companies that were losing market share, workers who feared being displaced, agricultural producers, and also environmental and human rights organizations, among others. Everyone found in the process an opportunity to promote their agendas or defend their convictions. The formation of this opposition led to an unexpected development. The free trade agreement became a political issue of the greatest importance within the United States.

In January 1991 in Washington, D.C., we opened an office to support Herminio Blanco's team, which would establish contacts with U.S. congressional representatives. During the fast track process, the members of this office met with U.S. representatives on more than 320 occasions.

We succeeded in getting the American business community to take vigorous action through the Business Round Table, the U.S. Chamber of Commerce, the Emergency Committee for American Trade (ECAT), and the U.S.-Mexico Business Council. They offered a novel strategy of turning to the grassroots supporters of the U.S. congressional representatives by approaching managers and workers in factories and plants located in congressional districts. The business community also met face-to-face with members of Congress.

The U.S. Hispanic community's support for the free trade agreement was essential. Additionally, Mexico had a strategic and long-term interest in reinforcing its relationship with Hispanic groups. Raúl Yzaguirre, executive director of the National Council of La Raza, one of the most respected and important Hispanic organizations in the United States, had a significant presence in the negotiations and played an important role. We maintained a close dialogue with leaders who had distinguished themselves in the areas of education and human and civil rights, such as Gloria Molina, Blandina Cárdenas, and Antonia Hernández from MALDEF.

With the approval of fast track, we moved from being allies to adversaries. In fact, with this change in position, we reinforced the concept that a negotiation is not a zero-sum game involving annihilation, but rather a process which sometimes is of attrition but in which all parties need each

other and all sides come out winners. It is competition and cooperation.

During 1992, we were in the home stretch. It was a very difficult year for the Americans since their economy was in full recession and the government was immersed in a presidential campaign. Both things affected the ability of the U.S. government to conclude the agreement. On the Mexican side, the conditions were favorable: the economy was beginning to grow again; the PRI had achieved a significant victory in the congressional elections; and democracy was advancing through democratic power-sharing, as PAN candidates were elected to governorships for the first time ever. Additionally, the Instituto Federal Electoral (Federal Electoral Institute, IFE) was created as the most reliable means for ensuring honest elections. The internal reforms in PEMEX were consolidated under the firm and honest leadership of Francisco Rojas. The modernization of the country progressed with the constitutional reforms granting land titles to campesino farmers (Art. 27), recognizing the legal existence of churches (Art. 130), renewing relations with the Vatican, and decentralizing the educational system (Art. 3). I stated publicly our proposal for social liberalism; thus we stopped neoliberalism within the PRI. By presenting the proposal as a package, we attained clarity of ideas, firmness of action, and an exact course for pursuing our plan.

On August 12, 1992, after exhausting and intense sessions, we concluded the negotiation of the North American Free Trade Agreement. It had required more than 200 ministerial-level meetings and more than 2,000 meetings of specialized working groups. In the end, they agreed to open the economies in four stages, the last one providing protection for agricultural products up to 15 years, and the asymmetry in our economies was acknowledged. At 12:30 p.m. that day, Jaime Serra of Mexico, Carla Hills of the United States, and Michael Wilson of Canada shook hands on the completion of the treaty. In a press conference later that same day, Serra presented the Mexican people with a full account of the details of the agreement's contents.

In October 1992, the three heads of state met in San Antonio, Texas, to witness the lead negotiators from the three nations initial the agreement.

On December 17, 1992, we signed the North American Free Trade Agreement. President Bush signed it at OAS headquarters in Washington, D.C., while Prime Minister Mulroney did so in Ottawa. Simultaneously, I signed it during a ceremony in the Adolfo López Mateos Room in Los Pinos.

During 1993, we negotiated the side agreements on environment and labor, and at the end of that year, following an intense yet delicate effort, the administration of President Bill Clinton won ratification of NAFTA in

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the U.S. Congress. The Mexican Senate approved it on November 22, 1993, and a short time later, on December 20, we published the full text in the *Diario Oficial de la Federación*.

A national-level poll in Mexico elicited encouraging results: 70 percent of those interviewed favored NAFTA, and only eight percent opposed it. We had forged a national consensus in support of our new relationship with our important North American neighbors, the United States and Canada.

In 1993, the last year before NAFTA took effect, Mexico's foreign trade (exports plus imports) exceeded US\$88 billion. For 2002, that figure will be almost US\$350 billion. In 1993, foreign trade represented 22 percent of Mexico's GDP; today, that figure has risen to 53 percent.

TODAY: INITIAL RESULTS

When we signed the treaty, it was agreed that NAFTA would take effect on January 1, 1994. At that moment, the world's largest free trade region with almost 400 million inhabitants and goods and services worth US\$8 trillion was born. NAFTA became a model for other agreements Mexico has signed with other nations, all of which have been rules-based and have contained a clearly defined dispute settlement mechanism, as does NAFTA.

Among NAFTA's results, we can list the following:

In terms of trade alone, the data are spectacular. The level of trade and the type of products that cross the borders silenced even the most ardent critics and surprised the firmest of believers. Aspe, one of the strongest sponsors of the agreement, did a study in 1993 to estimate NAFTA's impact on trade: reality shows he considerably underestimated the agreement's results. In August 1999, during the Latin American meeting of the Econometric Society, held in Cancún, the Nobel Prize-winning economist Gary Becker asked Jaime Serra if the negotiating team had foreseen a trade increase of such magnitude. Serra responded with a resounding "no."

In 1993, the last year before NAFTA took effect, Mexico's foreign trade (exports plus imports) exceeded US\$88 billion. For 2002, that figure will be almost US\$350 billion. In 1993, foreign trade represented 22 percent of Mexico's GDP; today, that figure has risen to 53 percent. The explanation for this notable increase lies in Mexico's having tripled its trade with the United States and doubled its trade with Canada since the advent of NAFTA. Two years after the agreement took effect, Mexico doubled its exports to Brazil. A little later, Mexico surpassed Japan as the second largest exporter of goods to the United States. Today, Mexico accounts for 11.5 percent of all U.S. imports. There is also an important change within the structure of Mexican exports. Petroleum has lost its dominance in Mexico's foreign trade. Before NAFTA, petroleum accounted for a quarter of Mexico's exports. Today, this energy resource represents less than one tenth of total exports because we now export high-tech equipment and mass consumer goods. These include exports of, among other items,

25 million color television sets and one million automobiles, making Mexico the world's sixth largest producer of automobiles.

It is true that today a little over 80 percent of Mexico's trade occurs with the United States, but that is not an effect only of NAFTA. Throughout the past one hundred years, our exports have been concentrated on our neighbor to the North. Over the entire twentieth century, Mexico sent between 60 percent and 90 percent of all its exports to the United States. Today, NAFTA is helping Mexico diversify, with goods exported not only to the United States and Canada but also to Europe, Asia, and Latin America. Furthermore, the country's overall trade has been increasing. In other words, unlike other trade zones, such as MERCOSUR, trade within the North American free-trade zone did not grow at the expense of trade with other regions. It was trade-creating and not trade-diverting.² Thus, Mexico's presence in other markets has increased. Experts have confirmed that "since 1993, Mexico has been exporting more not only to the United States but to nearly every major region in the world."³ For example, before NAFTA, Mexican exports to Latin America represented one-tenth of all exports to the region. Today, Mexican exports account for more than 25 percent of all exports to Latin America.

NAFTA strengthened the previous economic reforms and together increased the competitiveness of Mexican industry. One must recall that before entering GATT and the free trade negotiations, excessive protectionism in the Mexican economy obliged domestic businesses to buy most of their inputs within the country. Although seemingly a sound decision—since it would ostensibly stimulate domestic industry—this requirement translated into an obligation to acquire only what the domestic market produced, without considering quality or price. This policy hurt the consumers and reduced our competitiveness abroad. NAFTA eliminated this policy, and the increased efficiency made it possible for Mexico to increase its overall trade with other world regions. It is widely recognized that "Mexican industry has demonstrated significant improvements in labor productivity, product quality, and competitiveness. Vehicle quality is reportedly on par with vehicles built in the United States and Canada, and some industry observers report that despite extensive reliance on manual labor, many Mexican plants have better labor productivity than comparable U.S. and Canadian plants."⁴

NAFTA became a powerful stimulus for investing in Mexico. After the agreement took effect, the annual flow of international investment to our country tripled, from an average of US\$4 billion in 1993 to almost US\$11 billion annually, following the implementation of NAFTA. This adds up to US\$72 billion during the first seven years of the agreement. That period

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NAFTA reinforced the institutional mechanisms for Mexico-U.S. relations. This was a basic change in how the two countries conducted political dialogue.

saw the creation of 2.7 million jobs, more than half of which were related to exports. Facing these growing flows of foreign capital into Mexico as a result of the agreement, we chose to be prudent. Thus, NAFTA's "national security clause" recognizes that the Mexican government would be able to limit any investment that would threaten its security, without the affected party having recourse to the dispute resolution mechanism.

NAFTA strengthened unionization. The export manufacturing industry registered the highest levels of unionization in the country (90 percent of its workers are unionized). Unionization has been a fundamental means for protecting labor rights and improving wages. On average, jobs in export industries pay wages that are 40 percent higher than wages in non-export businesses. The agreement also opened the way for a new kind of industrial policy. Indeed, the transition periods made it possible to detect which industries would prosper and which would not. Moreover, the rules of origin have required the acquisition of a large proportion of inputs from within the free trade region. These rules represent a form of industrial policy without the inefficiencies of protectionism.

NAFTA became a tool for improving Mexico's regional development. Before taking effect, Mexican workers migrated to our northern border region in search of jobs. NAFTA has made it more profitable for companies to move to interior regions of the country. With the economic opening, the borders—particularly the so-called free zones—and Mexico City ceased being the most attractive places in which to locate. Of the 2,500 maquiladora firms that began operating in Mexico between 1994 and 1999, more than half located outside our northern border region, choosing instead the interior of Mexico.

NAFTA strongly stimulated the creation of small and mid-sized companies. In the first six years of the agreement, the number of businesses of this type in the export sector grew more than 75 percent. To this, one must add the productive linkages that the major export companies generate for small and mid-sized firms.

NAFTA reinforced the institutional mechanisms for Mexico-U.S. relations. This was a basic change in how the two countries conducted political dialogue. The institutions that NAFTA created—such as the dispute-settlement committee, the tripartite commissions on labor and the environment, and border agencies, among others—contribute to ensuring that inter-governmental disputes will not be settled by means of arbitrary or unilateral decisions.

NAFTA was a determining factor in guaranteeing permanence for the reforms achieved during my administration. Before the agreement, in the

foreign arena, uncertainty existed about the benefits of trade agreements. With NAFTA, our exporters acquired the confidence and certainty that they would have access to the U.S. and Canadian markets. Thanks to the agreement, not only did the North American market open up, but now administrative or unilateral decisions cannot close it. Within Mexico, NAFTA prevented the possibility that political circumstances or moments of crisis might reverse the modernizing reforms. This was dramatically confirmed at the beginning of 1995, when the new administration tried to introduce exchange controls and increase tariffs in response to the economic crisis: responsible officials reminded the new administration that adoption of such decisions would violate the treaty. That neutralized the misguided attempt. Nor was it possible to reverse the reform making the Central Bank independent, nor the one that gave land titles to the Mexican campesinos.

THE LOST OPPORTUNITY, AND MEXICAN RECOVERY THANKS TO NAFTA

In evaluating these early results, in the case of Mexico, one must remember that NAFTA has unfolded in the framework of the 1995 economic crisis. The fact that the launch of the treaty coincided with the crisis has generated criticisms and complaints, which attribute to NAFTA problems that did not arise from its application and which it has, indeed, helped to resolve.

My administration concluded on November 30, 1994. In the end, there were assets and liabilities. Problems existed that I have certainly recognized, as is indicated in my book, *Mexico: The Policy and Politics of Modernization*. But there was no crisis. As that book documents, a problem turned into a crisis at the beginning of the new administration, between December 19 and 21, 1994. During those few hours, Mexico lost more than half its international reserves. After that massive capital flight came the terrible devaluation. Did foreign speculative capital deplete the reserves? In an official document, the IMF has recognized, “The available data show that the pressure on Mexico’s foreign exchange reserves during 1994, and in particular just prior to the devaluation, came not from the flight of foreign investors or from speculative position-taking by these investors, but from Mexican residents....”⁵ Why did Mexican capital leave prior to the devaluation? Paul Krugman wrote, “It soon became clear that some Mexican businessmen had been consulted about the devaluation in advance, giving them inside information... Massive capital flight was now inevitable, and the Mexican government soon had to abandon fixing the exchange rate at all.”⁶ This inside information made worse what Joseph Stiglitz has noted,

“As perceptions that a devaluation is imminent grow, the chance to make money becomes irresistible.”⁷ Jeffrey Sachs and a group of specialists concluded, “The final step on the run-down of reserves was a speculative attack induced in large part by the government itself... The key difference in the Mexican case is that the devaluation was taken after reserves had been depleted...”⁸ This was accompanied by the dismantlement of the financial team and the inexplicable delay in introducing an economic program. In Mexico, this is now known as the “December mistake.”

To cope with the problem that it had created by leaking information about the imminent devaluation to a small group of businessmen, the new administration embraced neoliberalism and adopted a devastating contractionary policy: by March 1995, the exchange rate had devalued by almost 120 percent and the interest rates rose from 15 percent to almost 110 percent. Public expenditures collapsed 14 percent in real terms in the first half of the year. Consequently, the Mexican economy faced its worst recession in half a century: that year, the GDP fell almost seven percent and more than a million jobs were lost. The U.N. Economic Commission for Latin America and the Caribbean (ECLA) and the World Bank have calculated that during 1995 and 1996, between 8 and 12 million Mexicans entered the ranks of the poor, joining millions of others who already lived in poverty. The World Bank has pointed to “the devastating social effect of the 1994-95 crisis—which, in a few months, fully undid the ten percentage point reduction in poverty levels painstakingly achieved over the preceding decade.”⁹ Such was the economic and social cataclysm that the “December mistake” provoked.

In Mexico in 1995, another economic policy could have been adopted to overcome the crisis and thus avoid the extremely adverse affects on the country. Above all, it is unacceptable that inside information was provided to a select few, so that they could empty Mexico’s international reserves. If this mistake had been acknowledged, it might have been understood that an economic contraction was unnecessary since Mexican public finances were not in fiscal deficit. Any competent economist was able to see that the debtor was not the government but companies and families. Another major error was to allow, or even encourage, the skyrocketing hikes in interest rates because this destroyed Mexican companies and left Mexican families in poverty.

Joseph Stiglitz, Nobel Prize-winner in economics, has maintained that such a policy was simply wrong. “With high levels of indebtedness,” stated Stiglitz, “imposing high interest rates, even for short periods of time, is like signing a death warrant for many of the firms, and for the economy.”¹⁰ As a result, Mexico began 1995 with the majority of its families insolvent,

its companies exercising a debt-payment moratorium, and the banking system broke.

A cover-up was preferred, and it severely harmed the country and the confidence people were gaining in it as well. At that moment, there should have been an open and broad debate on public policy, which would have prevented the adoption of the neoliberal model. An open debate and a competent economic team might have made it possible to develop alternative, effective plans. Instead, the decision was made to protect the bureaucracy that committed the December mistake instead of protecting the well-being of families and companies and the nation's higher good.

Injury was added to insult. Mexico lost the sole opportunity—which NAFTA had created for it—to benefit from the largest U.S. economic expansion in history. If the December mistake had not been committed, between 1995 and 2000, Mexico might have grown at annual rates above five percent. Per capita GDP in Mexico in 2000 should have been 50 percent higher than what it was. If we apply the ECLA methodology to estimate the impact of economic growth on poverty reduction, during those six years, the number of those living in poverty could have declined from 45 percent of the total population to around 20 percent. It might have been possible not only to avoid having eight million Mexicans swell the ranks of the poor but also to lift approximately 20 million of our compatriots out of poverty. Instead, according to ECLA data, the number of Mexicans living in poverty in 2000 was greater than in 1994. Therefore, clearly, we have not recovered, since to recover is not to return to where we were in 1994 but to attain the level where we should have been had we not suffered the December mistake.

In that context, given the mistakes made, NAFTA's most spectacular result is that it saved Mexico from the 1995 crisis. Despite its severity, this crisis resolved itself with a rapidity that astonished the world. The official propaganda attributed the recuperation to the financial bailout, and so the government awarded its highest medal of honor to the director of the IMF. However, once the propaganda died down, objective appraisals appeared. Stiglitz was conclusive: "Mexico hadn't recovered because the IMF forced it to strengthen its weak financial system, which remained weak years after the crisis... Mexico recovered because of a surge of exports to the United States, which took off thanks to the U.S. economic boom, and because of NAFTA..."¹¹ The OECD confirmed this, recognizing that recovery was based on exports and that the growth in investments was related to foreign trade.¹² Of all the economic growth achieved by Mexico during the last part of the 1990s, it is now known that half resulted from the dynamism of

Of all the economic growth achieved by Mexico during the last part of the 1990s, it is now known that half resulted from the dynamism of exports and the other half from investment stimulated by export activity. Thus, almost all jobs created in Mexico between 1995 and 2000 came from activities linked to exports and the associated investment.

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In addition to saving Mexico from the crisis, NAFTA is responsible for results that will give the country viability in the medium term. In a recent visit to our country, Alan Greenspan, chairman of the U.S. Federal Reserve Board, declared that NAFTA, as an element central to that country's economic viability, sets Mexico apart.

TOMORROW: AN AGENDA FOR THE FUTURE

If NAFTA and market opening show encouraging results, why do they generate such criticism and complaints, concerns and resentment?

On the topic of market liberalization, the critics are correct in demanding a better distribution of its benefits and a positive and consistent attitude from industrialized countries. The new WTO Doha Round to revise excessive protectionism (which still exists in various developed countries and regions on products that are very sensitive for developing countries) reveals part of the problem—and also its solution.

It is correct to criticize globalization as it is advanced by market fundamentalists: its excesses hide privileges for the few. Globalization is inevitable, since it forms part of the capitalist system. Moreover, parts of it are essential (such as market opening or the availability of financial resources). However, the excesses, deviations, and corruption of market fundamentalists must be stopped. The solution is not in a return to the populist past, but in a globalization that regulates market excesses and strengthens organized civil society.

Some of the criticisms against NAFTA were mentioned above, principally, those relating to the concentration of exports to the United States, the lack of an industrial policy, the supposed haste in the negotiations, and the failure to recognize the asymmetry between the three countries. Without a doubt, the treaty had costs for many Mexican workers and businesses. Americans and Canadians also paid a price.

However, it seems to me that the above-mentioned results confirm that the costs have been more than offset. This does not mean that there are no problems to address or demands to resolve.

As former heads of state, our interest is no longer in the next election but in the next generation. Let us talk, then, with a view toward the coming ten years. The agenda for the future must address the complaints and also open the way for new initiatives that are essential for strengthening the reforms that NAFTA had as its goal.

In the case of Mexico, the agenda has a specific profile as well as aspects that go straight to the international debate on globalization. This agenda must be placed within the new world reality as defined by the tragedies and reprehensible events of September 11, 2001. The following may be some of the relevant themes for Mexico:

1. The Migration Treaty. This subject is as inevitable as it is essential. We must recall that during the NAFTA negotiations, a decisive moment occurred in November 1990 in Monterrey, Mexico. On that occasion, I met with President Bush, and during a frank discussion, I proposed that NAFTA include not only goods and services but also the free movement of people between our two nations. The proposition was to expand access to the U.S. labor market for Mexican workers and to strengthen protections for their rights. The intent was not to create an escape valve for the failure to generate sufficient jobs in Mexico: NAFTA itself would increase job availability in our country. In reality, a U.S. labor market for Mexican workers already existed, but we needed to regularize it to protect workers' rights. We sought only legal and temporary migration, since Mexico's migrant workers are courageous and thrifty men and women who are precisely the kind of people we wanted to keep in Mexico. President Bush countered by proposing a liberalization of the oil industry. He went on to emphasize that if the migration issue were part of NAFTA, it would be impossible to get the U.S. Congress to ratify the agreement. I refused to open the oil industry to foreign ownership and exploitation, and I knew that this negative response would not further our discussions on the subject of migration. Today, conditions have changed. With NAFTA now operating, petroleum is no longer a negotiating point. In the new context, President Fox has taken the correct position by insisting on a migration treaty. It is important to remember that these workers want to migrate only on a temporary basis. The fundamental point is that the movement of Mexican workers responds to a demand from the U.S. economy. Based on data from the 2000 U.S. Census, research has found that "the U.S. economy would have stumbled in the past decade without the new arrivals, and most immigrants contribute more in taxes than they use in services."¹³ Moreover, the Social Security Administration owes them payments. We need to establish an agreement to avoid the abuses to which Mexican migrants are subjected. A proposed migration agreement should not be one that guarantees a workforce of Mexicans to meet temporary labor shortfalls in the United States. Rather than creating a bilateral commission to regulate migratory flows at the governmental level, labor unions must take charge of doing so to ensure that these workers will not

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erode wages and to better protect their rights. Similarly, such an agreement will have to clarify the amount and fate of Social Security contributions deducted from Mexican workers' paychecks. Only thus will it be possible to determine the amount of their Social Security savings and to define the benefits to which Mexican workers are entitled. Unlike the Bracero Program, which operated in Mexico and the United States from 1942 to 1964, under a new treaty, a worker would not have to commit him or herself to a specific employer. The Bracero Program led to severe problems and growing abuse, as well as corruption on the part of the authorities who controlled who would get U.S. work visas. Because of the labor abuses and terrible working conditions, for most *braceros*, the costs of the program greatly exceeded the benefits. Today, the issue of payments owed to *braceros* for payroll deductions (made supposedly on their behalf into savings accounts) remains open. That problem and its solution must serve as a precedent in any new migration accord.

2. Additional Structural Changes. Beyond North America, it is essential to recognize the spirit of NAFTA, which, through its accession clause, welcomes the addition of other nations in the hemisphere. It is important to support President George W. Bush's initiative to create a Free Trade Area of the Americas. It would be worthwhile to include the Caribbean region. It would also be good to recognize that the trade embargo on Cuba is an anachronism in this era of globalization and new geopolitical realities. To lift the embargo would be the best way for the generous American people and the respected and sovereign Cuban people to open the way for justice. Within Mexico, the most urgent structural changes include improving the quality of education; stimulating greater regional development with the opportunities that NAFTA offers; and strengthening the participation of civil society in NAFTA's implementation, particularly in regard to the environmental and labor commissions, as well as through the creation of an ombudsman for migratory workers. Improvement in the efficacy of the special program for the U.S.-Mexico border region is also needed. Additionally, we must avoid taking inadvisable steps. Take the case of those who propose a North American monetary union. They are, in reality, recommending that the central banks of Mexico and Canada disappear, along with the Mexican peso and the Canadian dollar, and that these be replaced with the U.S. dollar and the U.S. Federal Reserve Bank. That would not be union, it would be submission. Mexico should not renounce its monetary sovereignty or the autonomy of its central bank. NAFTA created institutions for the three countries (such as the trade, labor, and environmental

commissions), but it did so without encouraging hegemonic positions. That spirit, which should be maintained in any new initiative, has nothing to do with the notion of a monetary union.

3. Rural Support. Today in Mexico, agricultural liberalization is the NAFTA issue that generates the most criticism and complaints. The Mexican countryside is clearly in grave difficulty. The poverty in which most campesinos live is unacceptable, and concern about the effects of the liberalization is valid. However, one should remember that the NAFTA talks negotiated a longer period of protection for agricultural products: fifteen years. Protection on corn, beans, and milk imports extends until 2008, so those products have yet to be liberalized. Thus, NAFTA did not mean immediate agricultural liberalization nor did the agreement cause the agricultural trade deficit. That deficit was incubating before the signing of NAFTA, and tariff reduction did not exacerbate it. For example, in 1993, agricultural imports from the United States were US\$4.1 billion, and Mexico exported US\$3.2 billion in return. Thus, the deficit existed before the implementation of the agreement. Last year, under NAFTA, Mexico exported almost US\$6 billion in agricultural products and it imported less than US\$7 billion. This exchange is almost at equilibrium because, since NAFTA went into effect, the annual trade deficit has been below US\$1 billion. According to ECLA data, during the first six years of NAFTA, Mexican agricultural exports grew on average 12 percent annually, but imports only grew by three percent annually. Beginning in 1995, the previous administration allowed non-tariff food imports above NAFTA quota limits. The motive for that decision should be investigated. A document from the Cámara de Diputados (Mexico's lower house) noted that these imports violated NAFTA rules and the exception was granted "at the discretion of the authorities and with an absence of transparency."¹⁴

People have also claimed that support for agriculture is lacking. That is true, but my government put in place a program of support for rural Mexico that was greater than one percent of GDP, the same proportion as U.S. agricultural subsidies. Through the PROCAMPO program, we introduced the first direct cash support for campesinos. Additionally, we made a commitment to maintain that level throughout the agrarian transition to allow for capitalization of rural areas. Almost 3.5 million Mexican campesinos received this support in 1994, the first year that NAFTA operated. However, between 1995 and 2000, the rural support program collapsed: the PROCAMPO budget dropped from US\$2 billion in 1994 to less than US\$500 million in 2000. Likewise, 600,000 campesinos lost their

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access to the subsidies; the land area supported was reduced by more than 100,000 hectares; and the support that a farmer received per hectare declined until, finally, it was barely half the amount granted in 1994. During these years, the government truly abandoned its responsibilities to the campesino. To meet the commitment it had accepted at the start of the presidential term, the previous administration would have had to grant direct support to campesinos at an annual level of approximately US\$2 billion. Instead, it allocated, on average, US\$500 million per year. The accumulated difference over that *sexenio* (presidential term) exceeds US\$8 billion. The debt for the undelivered value of PROCAMPO obligations must be paid to Mexico's campesinos. The previous government bequeathed this debt. If that administration had delivered this support—as it promised to do—the campesinos would have had capital to fund their agricultural operations. If, today, the commitment were met and this debt were paid, it would significantly reduce the magnitude of the problem in the Mexican countryside. Some propose to renegotiate NAFTA in order to remove the obligation to liberalize agriculture in the tenth year. However, in the past the government protected the rural sector for many decades, yet its condition only worsened. Renegotiate only to delay finding a solution for rural Mexico? If we renegotiate NAFTA, what will our partners demand? In reality, justice demands fulfillment of the commitment to pay the US\$8 billion in accumulated PROCAMPO debt. That would strike at the root cause of the prostration of the Mexican countryside. Failure to meet that obligation would wipe out one of the basic solutions to the rural problem. Moreover, all responses to the challenge of the countryside must be linked closely to environmental and water use issues, both rural and urban.

4. Financial Reform. NAFTA will bring future economic growth, thanks to the exports and also investments that the agreement engenders. However, because the Mexican economy lacks bank financing, that growth will not be enough. Lending from commercial banks to the non-financial private sector collapsed from ten percent of GDP in 1994 to 0.3 percent in 2000, even though the banks were sold to foreign interests, supposedly to resolve their low capitalization problem. The agricultural sector, small and mid-sized businesses, the educational system, and consumers, all urgently need loans. The 1995 crisis left Mexican banks insolvent. To save them, the previous administration introduced a banking bailout program called FOBAPROA (and now called IPAB). The government gave the banks non-tradable ten-year bonds at an attractive interest rate in exchange for their non-performing loans. The terms of each bond and the assump-

tion of the portfolios were negotiated in a discretionary and selective way, without consulting the Mexican Congress. The program was not a one-time event but continued for several years, so that the unrecoverable loans grew over time despite the economy's rapid recovery. Related lending grew as it became apparent that the rescue was an open-ended bailout mechanism. The moral hazard induced by this process was tremendous. Bad loans continued to increase even as bad loans were taken off the balance sheets.¹⁵ Additionally, contrary to what was achieved in the NAFTA negotiations, Mexico's system of payments was discretionarily turned over to foreigners. The bank bailout has had very adverse effects on the possibilities for Mexico's future growth. First, for Mexico today, the bailout is an additional debt of almost US\$100 billion. That debt represents a terrible burden on the Mexican people, since to service it—with other additional debts—raises the fiscal deficit to around four percent of GDP. The cost of the bank bailout has hobbled the federal budget, impeding urgently needed social and infrastructure spending. There is empirical proof that this discretionary bailout had another terrible effect: because of FOBAPROA's perverse incentives, the banks ceased lending.¹⁶ Why should the banks make loans when they have bonds that pay annual interest without administrative costs or risk, since the government's fiscal resources pay the interest? The banks lose the incentive to lend when most of their assets are government bonds. The new owners of the banks earn more by not lending and living on the interest from those bonds. This claim is proven by the collapse of development financing, which has tumbled to only 0.3 percent of GDP. Thus, the result of the bailout is that the banks have been lending less, and their profits have risen because of the interest payments from the federal budget. To cover the bonds, Mexican citizens pay higher taxes—only to find the banks won't lend them money. And the citizenry was supposedly the beneficiary of the bank bailout! Today, neither producers nor consumers have access to credit in Mexico. Thus, for the population generally, the 1995 crisis is not yet over. Additionally, the lack of credit forces companies to seek financing abroad, which starts the vicious cycle of capital inflows-sterilization and provokes the overvaluation of the Mexican peso. At the end of 2000, the overvaluation of the peso was 21 percent higher than it had been in November 1994. The excessive overvaluation brought on by the bank bailout mechanism considerably limited the capacity of Mexican exporters to take advantage of NAFTA. The way to get the banks to lend again and finance development is not by further punishing debtors with stiff commercial bankruptcy laws. The solution is to exchange the bonds for another form

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of debt instrument that is less harmful to development and less costly. It will also be necessary to pinpoint those responsible for this discretionary bailout that has harmed Mexico so gravely.

5. Judicial Reform. Enforcement of the rule of law continues being a persistent demand of the Mexican people. The rule of law is essential for daily social coexistence and also for economic development. The climate of insecurity that Mexico is experiencing will not be resolved through harsher punishments but by attacking the causes of that insecurity. Without the rule of law, future sustained growth is impossible.

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6. The China Challenge. Mexico's greatest rival for investments and markets is China. In 2001, Mexico was the second largest exporter to the United States, with export sales surpassing US\$131 billion. China was in fourth place, exporting US\$102 billion. Plants have not moved from Mexico to China, and with the exception of the textile and apparel sectors and telephones, the United States has not replaced Mexican imports with goods from that Asian nation. Mexico has the advantage over China in the exportation of vehicles, automobile parts, and television sets. China is gaining ground in products that require sewing (apparel, shoes, luggage, and toys) and also in computer and telephone equipment and household appliances. Mexico has the advantage of proximity to the United States and tariff-free access that it gained with NAFTA, particularly with regard to rules of origin. However, China exports seven times the amount that Mexico exports to the European Union and 72 times the amount to Japan. China, moreover, has shown that it can perform favorably even in adverse circumstances: during 2001, in the midst of the American recession, while U.S. imports of Mexican machinery and textiles fell by more than US\$1.3 billion, U.S. imports of Chinese products in these categories grew by the same amount. Surveys of foreign investors and Mexican exporters have pinpointed three factors that affect Mexico's competitiveness in regard to China: (a) overvaluation of the peso (which, at the end of 2000, was already 21 percent higher than in 1994) and the high cost of some inputs; (b) the banking sector's lack of interest in lending; and (c) insecurity, particularly in Mexico City. Trade competition between China and Mexico to export to the United States does not have to occur in a scenario of confrontation. Mexican and Chinese producers could make a strategic alliance—for example, by using Mexican inputs (which may be cheaper, even after transportation costs) and processing them in Chinese plants.

THE COMING CELEBRATIONS

NAFTA has contributed greatly to the well-being of our three nations. Much more must be done so that it will fully bear its fruit. Given the new geopolitical realities and international economics under which we lived after the end of the Cold War, the Mexicans negotiated NAFTA in order to have an instrument that would give that nation markets for its products and a stronger flow of investment resources. This was vital for recovering economic growth. Under globalization, NAFTA has met these expectations by allowing us to overcome the crisis and promote growth.

This is essential since the economic growth that market liberalization has encouraged can be one of the most important means for reducing the unacceptable levels of poverty that Mexico suffers. Poverty reduction also requires specific programs. There are two types: individualized grants or organized participation. Here one must choose. Neoliberalism pretends to reduce poverty while it destroys the organized participation of civil society. The alternative is social liberalism, which proposes the empowerment of organized people, since that translates into new social capital. This is the truly effective and just method for reducing poverty. There can be no sovereignty in the midst of destitution. Moreover, one must not forget that, in essence, sovereignty has to do with state legitimacy, which is rooted in the support and backing that the people give the state. Thus, a globalization that does not reduce poverty threatens sovereignty and must be rejected.

The issues of sovereignty and globalization must be faced squarely. The risk for sovereignty is not in the liberalization of trade but in lacerating poverty. We must move from inevitable globalization to necessary and unavoidable solidarity since most Mexicans want Mexico to remain a sovereign nation.

Ten years have passed since we signed this innovative agreement. With the internationalist spirit that led us to negotiate it, we now must take the next steps. In that endeavor, during the next ten years, we propose to promote ideals and act in a way that will support the sovereignty of the Mexican people. Thus, in the next ten years, we must prepare for other events that the Mexican people shall celebrate.

In 2006, we will commemorate the bicentennial of the birth of Don Benito Juárez, a model Mexican who reaffirmed the sovereignty of Mexico under a republican regime.

We will celebrate the 150th anniversary of our liberal constitution and the 90th anniversary of our social constitution in 2007.

We will be preparing to celebrate, in 2010, the bicentennial of our independence and the 100th anniversary of Mexico's social revolution.

[S]overeignty has to do with state legitimacy, which is rooted in the support and backing that the people give the state. Thus, a globalization that does not reduce poverty threatens sovereignty and must be rejected.

Amidst new threats to the removal of obstacles to free trade, along with difficult steps toward modernization, new doors will open. I am certain of it. It is a certainty as long as the world continues to have men of vision, such as George Bush and Brian Mulroney, who are ready to launch great initiatives, like the one we accomplished ten years ago, with the vigor of adversaries in the negotiating arena, and the spirit of responsible leaders in the world of cooperation.

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Richard Chilcoat

Good morning, ladies and gentlemen. My name is Dick Chilcoat. I'm the dean of the George Bush School of Government and Public Service, located at Texas A&M University in College Station, Texas. We're proud to be part of the George Bush Presidential Library Center and part of Texas A&M, now the 4th largest university in the United States, with over 45,000 students in residence.

We're delighted to be one of the cosponsors of this important conference that examines the progress, potential, and precedents of NAFTA all at the tender age of 10 years.

Before I assume the privilege and honor of introducing our next very distinguished speaker, I'd like to say a quick word about the Bush School. We are a young school, a graduate school, a professional school. Our mission is to educate principled leaders in public service and administration and in international affairs. We just celebrated our first five years of history.

We've graduated four great classes of 20 students each, and I'm proud to say that our graduates are well placed: they serve at all levels...from local to national levels...in small towns and state government in Texas...to non-profits, federal departments and agencies, and even the White House, in our nation's capital.

We get great students from around the country (next year we'll have over 100 graduate students in residence and 100 certificate students in residence, plus many more at a distance); our faculty is a preeminent group of scholars who teach, research, and serve (Drs. Lorraine Eden and Kishore Gawande are participants in this conference); our master's degree programs in public service and administration and in international affairs are innovative and highly regarded; we have great facilities; we have high-profile conferencing and speakers programs; we use educational technology to leverage our programs; we're building a national and international reputation; and, in a phrase, we believe we are "a new school, for a new era"...preparing the public servants of the future for the challenges and opportunities of the 21st century.

When you walk in the front entrance of our school, you will see a marble bust of our namesake, former president George Bush. Underneath,

carved in stone, are his words that serve both as our touchstone and as a challenge: “Public service is a noble calling, and we need men and women (who are leaders) of character who believe that they can make a difference in their community, in their state, and in their nation.” We at the Bush School—students, faculty, and staff—aim to be a great school and fulfill that compelling challenge.

The president not only gives us inspiration, he gives us his personal support and commitment for which we are deeply grateful.

He is a most distinguished leader, statesman, and public servant. Need I say, he is a great role model for our students and a most distinguished member of our faculty. Ladies and gentlemen, please join me in a warm welcome for the 41st president of the United States, the honorable George Bush.

President George Bush

Let me just start by saying it is an honor to be introduced by a public servant of Lee Hamilton's caliber, who represented his district, his state, and his political party with integrity—particularly as chairman of the House Committee on Foreign Affairs. We didn't always agree on policy, but Lee Hamilton always placed principles above partisanship and worked comfortably with those on both sides of the aisle—and just as important, he has proven that it is indeed possible to have a wonderful and productive private life after public service in his leadership capacity here at the Woodrow Wilson International Center for Scholars.

The Center does outstanding work in promoting the discussion of crucial policy issues, and is a place where scholars and policy makers can engage in fruitful discourse—and so I want to thank Lee and his very able staff for hosting the “NAFTA at Ten” Conference.

On a somewhat parochial note, I also take some pride that the George Bush School of Government and Public Service at Texas A&M is one of the cosponsors for this event.

Last month, in fact, the Bush School celebrated its fifth anniversary—and I can hardly believe it. We have some of the best and brightest young men and women in the country enrolled there—and I can only hope we are doing a good job there preaching the gospel of public service with honor and integrity. If we are, that's because Dean Dick Chilcoat, who is here with us today, and his superb team are doing all the heavy lifting. Thank you, Dean, for all you have done in building our school for the future.

Of course, it is a special joy to be here with my former colleagues from the world stage—two men with whom I was proud to work on some tough, forward-looking issues, and hopefully make a difference. Winston Churchill once noted he did not fear how history would treat him, for he planned to write that history himself. You can't be a president or a prime minister without some appreciation for the sweep of history, and I have no doubt that when the history of our time together is finally written, it will be recorded that Prime Minister Mulroney and President Salinas led their proud countries with exceptional talent and distinction.

[A]mong other things, we wanted to use economic reform as a vehicle for peaceful resolution of the conflicts in Central America. Just as important, we wanted to achieve progress on Latin American development issues while solidifying closer ties with our trusted Canadian and Mexican neighbors.

And while I am not sure what I can add to what they have already observed about “NAFTA at Ten,” I am happy to share a few thoughts about this watershed moment not only in American history, but in the history of North America, when we decided we would seek progress—to step forward—together.

For starters, when I look over the events of the last ten years, it is with a mixture of great pride—but also some reticence. I say this because in December of 1992, remember, I had just received what Winston Churchill called the “Order of the Boot”—having lost the election, fair and square, to President Clinton.

So in a personal sense, you might say I was coming to terms with my own political mortality—and preparing to transition to what has now been a thoroughly fulfilling, full, active, and very happy retirement.

But there were two main items of unfinished business to tend to before being sworn out of office—one of them being the START II agreement I signed in Moscow in January of 1993 with President Yeltsin to drastically reduce the nuclear arsenals maintained by the two superpowers and, thus, also drastically reduce the threat of nuclear war.

But preceding START II by a few weeks, right here in Washington, was the signing of NAFTA. As we know now, the agreement we signed 10 years ago created the largest, richest, and most productive market in the world.

It was an extraordinary achievement; and appropriately, since NAFTA was a cornerstone for expanding trade within the Western Hemisphere, we signed the accord at the Organization of American States. This was symbolically important because, among other things, we wanted to use economic reform as a vehicle for peaceful resolution of the conflicts in Central America. Just as important, we wanted to achieve progress on Latin American development issues while solidifying closer ties with our trusted Canadian and Mexican neighbors.

When I came into office in 1989 after eight years at Ronald Reagan’s side, I was already a firm believer that trade and investment were the only way to improve the collective economic prospects of the hemisphere. In short, it was the better road—the proven road—to the future we all wanted to see realized. And to this end, to fully engage our Central and South American neighbors on a broad range of issues from debt relief to trade and investment accords, our team launched the Enterprise for the Americas Initiative in 1990.

When it later came to negotiating NAFTA, of course, we—Brian, Carlos, and I—knew it wouldn’t be easy. On several occasions, Brian has

referred to the fact that at certain points his political support was down to members of his immediate family, and I know how he feels.

But we stayed the course, because in the end we believed that economic reform would contribute to increased political stability and democracy in the Western Hemisphere. We believed that not only would trade benefit our neighbors, it would open new markets—new opportunities—for tens of millions of businesses and investors.

Perhaps that is why signing the NAFTA agreement was one of my proudest moments as president of the United States. I viewed the agreement as a palpable step forward to greater prosperity and stability across the region.

And here I want to acknowledge the exceptional efforts of U.S. negotiators Carla Hills and Jules Katz, as well as their outstanding counterparts Jaime Serra and Michael Wilson and their respective colleagues. They and their superb teams did a marvelous job in concluding these complicated talks in a little over one year.

I want to stress that many individuals beyond these top negotiators worked diligently for the success of NAFTA. In the United States, many in both parties labored on behalf of NAFTA. I am grateful for their hard work.

I also want to salute former President Bill Clinton for fighting for NAFTA after I left the White House. I appreciate what he and his administration did in getting the accord through Congress with the help of a lot of congressional Republicans. They lobbied tirelessly on behalf of the agreement because it was right for our country—and right for our hemisphere.

Of course, as we have heard, achieving NAFTA was not easy. There were opponents across the political spectrum in each of our three nations.

In particular, I remember reference being made to a “sucking sound” of American jobs going out of the country; but, again, we stayed the course, because we knew that in the end more trade would yield results—including, for the record, millions of new, higher paying jobs. True, I read a report that, in 1997, the United States lost some 385,000 manufacturing jobs; but at the same time, we added more than three million jobs in advanced sectors such as computer programming and management consulting.

So there is a trade-off in some ways—a painful trade-off for many, but one I believe we simply must endure if we want America to compete for and win new business in this increasingly interconnected and competitive global economy.

Now, am I happy that 385,000 Americans lost manufacturing jobs in 1997? No, not for a second. Many of them had families to feed, but the

Some experts predict that, by 2015, reshaping the world's trading system and reducing barriers to trade in goods could reduce the number of poor people in developing countries by 300 million—and boost global income by as much as \$2.8 trillion over the next decade.

argument is that adding millions of better paying jobs to the rolls benefits us all in the long run. And the two million NAFTA-related jobs that have been created in the United States since 1993 pay between 13 and 18 percent more than the average national wage.

And as we have already heard Brian and Carlos describe in detail, NAFTA isn't just a two-way street, it's a three-way street. The foreign direct investment inflows into the NAFTA countries between 1994 and 2000 reached \$1.3 trillion—or about 28 percent of the world total. Of this, a Dow Jones report out just last week noted that 70 percent of the FDI into Mexico has come from the United States. (Maybe some of you saw this, but the Bancomex director put out a release last Wednesday citing the 13,715 Mexican companies that have received American investment since NAFTA was signed.)

Now, I know you are in for two intensive days of examining this Agreement and the laborious details that go along with it—and so, in a kinder and gentler way, I do not want to bludgeon anyone to death with statistics.

But I know part of the agenda for this conference is to examine the prospects of the Doha Development Round, and several panels will look at what it takes to “get globalization right.” So let me just broaden the perspective here for a moment.

If you look around the world, freer trade has clearly delivered benefits to developing countries as well. For example, as a recent IMF paper points out, in trade, opening East Asian countries—the so-called “New Globalizers”—the number of people in absolute poverty declined by over 120 million between 1993 and 1998.

Moreover, since the Seattle WTO meeting, governments comprising about a quarter of the world's total population—some 1.5 billion people—have joined the WTO. And another two dozen or so countries are currently negotiating their terms of membership, perhaps most significantly Russia. The WTO's multilateral trading system is now nearly universal, covering more than 97 percent of total global trade.

This is a positive development in my view. Some experts predict that, by 2015, reshaping the world's trading system and reducing barriers to trade in goods could reduce the number of poor people in developing countries by 300 million—and boost global income by as much as \$2.8 trillion over the next decade.

Of course, in many political corners, including here in the United States, trade will continue to stir up parochial passions. The process of advancing the trade agenda often involves several steps forward, as we wit-

nessed ten years ago, followed by occasional steps backwards—as we saw in Seattle in 1999, where a lawless mob of anarchists showed the world their true, extreme colors.

(About the best you could say for those rioters was they had the good taste to ransack a Starbucks and get some decent coffee before getting on with their day.)

Extremists like that either don't "get" the benefits of freer and fairer trade, or are simply content to ignore the facts. One problem, as WTO Director Mike Moore has noted, is that the "anti-globalization (movement) is confused with anti-Americanism. Little credit is given to the fact that U.S. companies account for around one-fifth of total world imports, and almost one quarter of total exports."

But we are also aware that 96 percent of the world's consumers live outside the United States, and that the more prosperous they become, the better it is for U.S. businesses.

Now, is the current system perfect? Far from it. No country adheres to totally free trade. Every country finds that it has to compromise from time to time. Sometimes it is agriculture; sometimes it is textiles; sometimes it's steel imports.

Those of us who support more trade must acknowledge that managing trade relations is ongoing work, and FTA and NAFTA were just a starting point in an ever evolving process of balancing competing objectives between the increasing numbers of nations who seek genuine, sustainable progress for their peoples.

I believe that, given time, the administration, the Congress, the WTO, and the other participants responsible for designing and managing the system of global trade will iron out differences that emerge and identify certain fundamental principles that govern the way we trade products. For example, we must be sure to avoid having regional trading pacts turn inward, and evolve into protectionist "blocks." In my view, agreements like NAFTA and Mercosur should be but steps to knocking down more barriers and joining more nations and regions together.

And I am heartened that, in the United States, the Congress passed Trade Promotion Authority legislation empowering the president to strike more trade deals with our hemispheric partners vis-à-vis the FTAA. With some 22 million jobs in the United States depending on trade, now is not the time to rest on our laurels. This hemispheric FTAA agreement uniting the Americas in free trade would link 34 countries with 800 million people producing roughly \$13 trillion in goods and services.

[A]greements like NAFTA and Mercosur should be but steps to knocking down more barriers and joining more nations and regions together.

[W]e simply cannot retreat from the world; we cannot withdraw into a “Fortress America”; we cannot give in to the selfish voices of isolation and the timid voices of protectionism.

Indeed, the benefits of free trade would seem clear; and yet, some remain oblivious to the magic and resilience of opening more markets. At precisely the moment history beckons us to take wing—and realize the promise of a New World Order in which ideas and commerce are more freely exchanged throughout the global village—some seem intent on sticking their collective heads in the sand.

Speaking for my own country, we simply cannot retreat from the world; we cannot withdraw into a “Fortress America”; we cannot give in to the selfish voices of isolation and the timid voices of protectionism.

Having said that, I feel obliged to warn you that, at this stage of my life, I don’t normally “do” issues. But this NAFTA issue is near and dear to my heart—enough for me to come to Washington, where I do not often visit. That surprises some people, I guess, but it’s true.

We only have one president at a time. Almost ten years ago, I promised President Clinton that I would try very hard not to criticize or second-guess him in public, understanding that he had a very big job to do and that there were plenty of able men and women in the loyal opposition to battle for the principles I share.

I have worked very hard to extend the same courtesy to the 43rd president... but all bets are off with Barbara... As the president has noted, I give him advice when he asks for it, and his mother even when he doesn’t...

No, I had my chance, and did my best. As LBJ said of his time in office: “I lived thoroughly every hour ... I had known sorrow and anger, frustration and disappointment, pain and dismay. But more than anything else, I experienced the towering pride and pleasure at having had my chance to make my contribution to solving the problems of our times...”

We got some things right—and I believe NAFTA was one of them—and our team also undoubtedly could have done some things better, but now it’s President George W. Bush’s turn to throw everything he’s got into leading this the greatest, freest nation in the world.

Thomas Jefferson once said that “there comes a time when men should go, and not occupy too long the high ground to which others have the right to advance.” And so it is in the Bush family.

So I am honored to be here at this prestigious institution along with my two former colleagues for whom I have great affection. Suffice it to say, I wish the conference participants well as they debate this agreement over the next two days. Good luck to you all. Thank you very much.

Appendix 1: Ipsos-Reid poll results

ON THE 10TH ANNIVERSARY OF NAFTA...

- More Americans (48%) believe they are NAFTA winners, compared to Canadians (38%), and Mexicans (30%)
- However, Canadians (44%) are most likely to want closer trade and economic ties with NAFTA partners, while Americans (39%) are most likely to want the status quo...
- And Mexicans (33%) are less likely to want more trade and stronger economic ties

Washington, D.C.— A new Ipsos-Reid poll conducted on behalf of the Washington, D.C.-based Woodrow Wilson International Center for Scholars for the “NAFTA at 10: Progress, Potential, and Precedents” conference, released today, shows that at the 10th anniversary of the signing of the North American Free Trade Agreement, half (48%) of Americans say that their country has been a winner as a result of the agreement. This compares to the views of Canadians (38%) and Mexicans (30%) on how their own country has fared in regards to NAFTA.

Mexicans (52%) are the most likely to indicate that their country is a loser in NAFTA, while 47% of Canadians also hold this view regarding Canada’s role in NAFTA. In comparison, only 37% of Americans believe this to be the case for the United States. In general, younger people in Canada (44%) and the United States (64%) are more likely than their middle aged (Canada 36%; United States 41%) or older (Canada 34%; United States 39%) counterparts to believe their country has been a winner in NAFTA.

IN OTHER FINDINGS...

Canadians appear to be the most polarized as to the effects of NAFTA on their country.

More Canadians (38%) believe that NAFTA has hurt Canada, compared to one-third (34%) who say that the agreement has benefited Canada, while 17% believe that it hasn’t had any impact one way or the other on the country. In comparison, one-third (34%) of Americans

believe the agreement has benefited the United States, while 23% say that it has hurt their country. One-third (32%) say that it hasn't had any impact on the United States. Mexicans are the most evenly split on the effects of NAFTA on their country, with 29% who say that the agreement has benefited Mexico, 33% who say it has hurt the country, and an equal number (33%) who say it has not had any impact on Mexico.

- Younger Americans (43%) are more likely to say that NAFTA has benefited their country, while middle aged (37%) and older (36%) Americans are more likely to say that the agreement has hurt the United States.
- Meanwhile, middle aged (33%) and younger (28%) Mexicans are more likely believe that the agreement has benefited Mexico, while older (39%) Mexicans are more likely to say that NAFTA has hurt Mexico.
- In Canada, middle aged (46%) Canadians are more likely than either older (37%) or younger (37%) Canadians to say that NAFTA has hurt Canada, while there is no statistical difference between age groups as to the view that NAFTA has benefited Canada.
- For comparison, when this question was previously asked of Canadians in October 1999 and December 1997, four in ten (1999: 41%; 1997: 40%) believed that Canada benefited from NAFTA, while three in ten (1999: 30%; 1997: 27%) said that NAFTA had hurt Canada.

However, Canadians (44%) are the most likely to say that we should make trade even closer between these countries and integrate the three economies further (United States 34%; Mexico 33%). Meanwhile, Americans (39%) are the most likely to say that we should keep trade between these countries and their economies the way they are today for the foreseeable future (Canada 31%; Mexico 25%). Mexicans (33%) are the most likely to say we should reduce trade and integration of the economies of these three countries (Canada 19%; United States 19%).

- Younger (44%) Americans are more likely than older (36%) Americans to say things should remain the way things are for the foreseeable future, while middle aged (23%) Americans are more likely than their younger (14%) counterparts to indicate that trade and integration of the economies of the three NAFTA countries should be reduced. This is also the view of Americans in middle (24%) and upper (21%) income households compared to the views of those in lower income households (13%).

In Canada, younger (38%) Canadians, more than older (29%) or middle aged (28%) Canadians, say that trade and economic integration should remain the way it is for the foreseeable future.

These are the findings of Ipsos-Reid polls conducted in Canada, the United States, and Mexico during November 2002. The polls are based on a randomly selected sample of 1,007 adult Canadians, 1,000 adult Americans, and 503 adult Mexicans. With samples of this size, the Canadian and American results are considered accurate to within ± 3.1 percentage points, 19 times out of 20, of what they would have been had the entire adult populations of Canada and the United States been polled. The Mexican results are considered accurate to within ± 4.5 percentage points, 19 times out of 20, of what they would have been had the entire adult populations of Mexico been polled. The margin of error will be larger within regions and for other sub-groupings of the survey population.

Location: United States

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December 8, 2002

Appendix 2: Trade agreements between Canada, Mexico, and the United States

- 1854** Canada-United States Elgin-Marcy Reciprocity Agreement
- 1866** United States terminates Elgin-Marcy Reciprocity Agreement
- 1911** United States passes another reciprocity agreement, only to have it defeated in Canadian Parliament following a Liberal election loss
- 1930** Smoot Hawley Tariff Act—United States raises tariffs on dutiable goods to 60 percent
- 1934** United States Reciprocal Trade Agreement Act—establishes the authority of the President to negotiate the reduction of tariffs
- 1935** First official Canada and United States Trade Agreement enters into force under the U.S. Reciprocal Trade Agreement Act of 1934
- 1944** The Bretton Woods Agreement
- 1947** Canada-Mexico Trade Agreement enters into force (largely superceded by NAFTA)
- General Agreement on Tariffs and Trade (GATT) signed in Geneva. This year also marks the beginnings of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (later the World Bank) which were established by the Bretton Woods Agreement.
- 1960-62** Dillon Round of GATT (Geneva, Switzerland); preceded by the Annecy Round (1949); the Torquay Round (1950-51); and the Geneva Round (1955-56)
- 1962-67** Kennedy Round of GATT (Geneva, Switzerland)

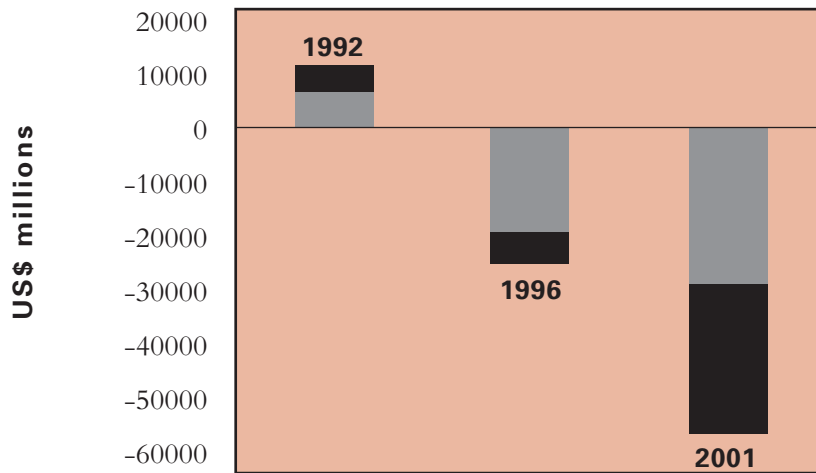
- 1965** United States–Canada Auto Pact and defense sharing agreements give Canadian branch plants of some multinationals special status in U.S. markets
- 1968** Formation of Canada–Mexico Joint Ministerial Committee (JMC)
- 1971** President Nixon closes the gold window, ending the period of fixed exchange rates established by the Bretton Woods Agreement
- 1973** Smithsonian Agreement amends IMF article to reflect new era of floating exchange rates
- 1974** U.S. Trade Act introduced “fast track” congressional procedures for accelerated consideration of trade agreements (fast track is now generally referred to as TPA or Trade Promotion Authority)
- 1980** Canada–Mexico Agreement on Industrial and Energy Cooperation; Canada–Mexico Memorandum on Understanding (MOU) on Agricultural Cooperation
- 1981** Canada–Mexico Economic Cooperation Agreement
- 1985** Mexico and United States sign an agreement governing subsidies and countervailing duties
- 1986** Mexico joins the GATT
- 1986-93** Uruguay Round of Multilateral Trade Negotiations
- 1987** Canada–United States Free Trade Agreement (CUFTA) negotiated

United States and Mexico sign “Framework of Principles and Procedures” to settle trade disputes
- 1988** U.S. Omnibus Trade and Competitiveness Act provides the authority for the President to enter into bi/multilateral trade agreements; NAFTA was approved under this act

- 1990** Canada-Mexico Agreement on Environmental Cooperation
Canada-Mexico Arrangements on Agriculture and Livestock
Canada-Mexico Agreement on Mutual Assistance Between Custom Administrations
Canada-Mexico MOU on Trade and Investment Consultations
Enterprise for the Americas Initiative first proposed by President George Bush
- 1991** Canada-Mexico Double Taxation Agreement
- 1992** Initialing of the NAFTA (ratified in 1993)
Agreement between the Central Banks of Canada and Mexico
- 1994** NAFTA comes into force, establishing the NAFTA Secretariat, consisting of:
- the North American Agreement on Environmental Cooperation and its secretariat in Montreal
 - the North American Agreement on Labor Cooperation and its Secretariat in Washington, D.C.
 - North American Development Bank with a Secretariat in San Antonio
- Thirty-four heads of state and government meeting at the Summit of the Americas launch negotiations for a Free Trade Area of the Americas
- 1995** World Trade Organization (WTO), established in the Uruguay Round, enters into force
- 1999** WTO Ministerial—Seattle; first highly publicized large-scale demonstrations protesting trade and globalization
- 2001** WTO Ministerial; 142 members agree to new global trade negotiations in Doha, Qatar
- 2005** Deadline for completing global trade negotiations, Free Trade Agreement of the Americas, and the final phasing out of the Multi-Fiber Arrangement

Appendix 3: Statistics on trade among Canada, Mexico, and the United States

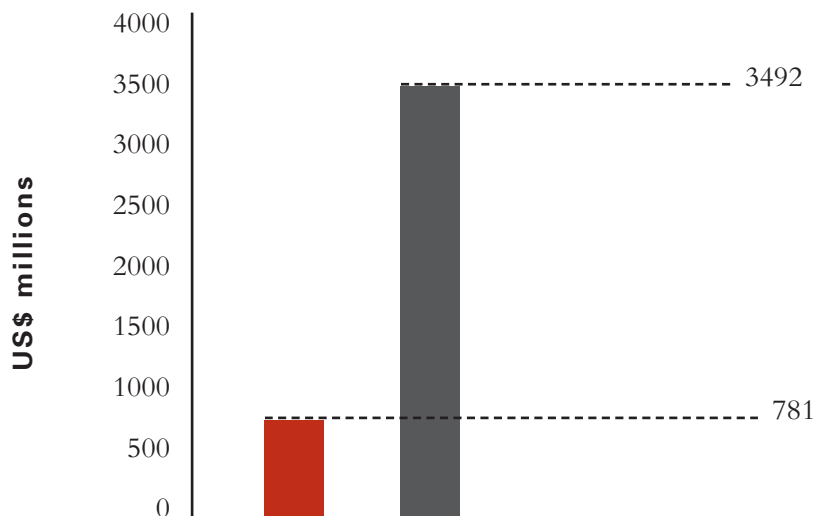
U.S. Trade Balance with Canada and Mexico, 1992 - 2001*



■ U.S. trade balance with Mexico ■ U.S. trade balance with Canada

*Balance of goods, services, and income (BEA, September 2002)

Canadian Investment in Mexico, 1994 - 2001



■■■■■■■■■ **US\$743 million**

Ketchup and mustard sold in the United States

■■■■■■■■■ **US\$827 million**

Mexican sauces sold in the United States

Canada is the United States' primary oil and energy supplier.

Two-thirds of all NAFTA trade is transported by trucks, with goods valued at US\$429 billion in 2000. Detroit/Windsor and Laredo/Nuevo Laredo saw the highest volume of trade on each border.

The United States is Canada's leading agricultural market, importing almost a third of Canada's food exports.

People entering the United States from Canada daily **250,000** ■■■

People entering the United States from Mexico daily **800,000** ■■■■■■■■

Speaker Biographies

GEORGE BUSH

George Bush was elected president of the United States on November 8, 1988, sworn in on January 20, 1989, and served until January 20, 1993. During his term in office, the Cold War ended; the Soviet Union ceased to exist; Germany was reunified; and Eastern Europe became free. President Bush put together an unprecedented coalition of 32 nations to liberate Kuwait from Saddam Hussein's brutal aggression.

President Bush also signed into law, among other things, the Americans with Disabilities Act and the Clean Air Act—landmark civil rights and environmental legislation. He also successfully fought for and negotiated the North American Free Trade Agreement (NAFTA), which was later signed into law.

He was elected in 1966 to the U.S. House of Representatives from Texas' 7th District and served two terms. Bush has held a number of senior level appointments: U.S. Ambassador to the United Nations (1971); chairman of the Republican National Committee (1973); chief of the U.S. Liaison Office in China (1974); and Director of Central Intelligence (1976).

In 1980, Bush lost his first bid for the Republican presidential nomination to Ronald Reagan, but he later accepted a spot on the national ticket and served as vice president from 1981 to 1989.

Born on June 12, 1924, in Milton, Massachusetts, George Bush became a decorated naval pilot who flew torpedo bombers during World War II. He then graduated Phi Beta Kappa from Yale University in 1948 with a degree in economics.

RICHARD A. CHILCOAT

On September 1, 2000, Dick Chilcoat retired from the United States Army after 42 years of active military service. On July 1, 2001, Chilcoat was named dean of the George Bush School of Government and Public Service at Texas A&M University.

During his military service, Chilcoat served in a variety of leadership positions. These positions included chief of staff, 3rd Infantry Division, United States Army Europe and Seventh Army; executive assistant to

General Colin Powell, chairman of the Joint Chiefs of Staff; and deputy director, strategy, plans and policy, Office of the Deputy Chief of Staff for Operations and Plans, United States Army. In 1994, General Chilcoat became 43rd commandant of the United States Army War College. In 1997, he was appointed ninth president of the National Defense University by the chairman of the Joint Chiefs of Staff and served until July 7, 2000.

Among Chilcoat's service awards were the Defense Distinguished Service Medal, the Defense Superior Service Medal, the Legion of Merit, the Bronze Star Medal with one Oak Leaf Cluster, the Defense Meritorious Service Medal, and the Meritorious Service Medal with two Oak Leaf Clusters. He was a senior army aviator, ranger, parachutist, and combat infantryman.

Chilcoat received his M.B.A. from Harvard Business School and a B.S. from the United States Military Academy; during his cadet career he was first captain and brigade commander of the Corps of Cadets, president of the Class of 1964, and captain of the varsity basketball team. He is an honorary graduate of the U.S. Army War College. Currently, he serves as a member of the board of advisors, Naval Postgraduate School, a class trustee of the Association of Graduates, U.S. Military Academy, and a member of the board of directors, National Defense University Foundation.

JOSEPH B. GILDENHORN

The Honorable Joseph B. Gildenhorn was named chairman of the Woodrow Wilson International Center for Scholars in June 2002. Gildenhorn is a widely respected diplomat and businessman. In 1989, he was appointed by former president George Bush to serve as the United States ambassador to Switzerland, where he served until 1993.

He currently is a director and founding partner of The JBG Companies in Washington, D.C. Gildenhorn serves on numerous civic and public policy-oriented boards, including the University of Maryland College Park Foundation, the Study of Diplomacy at Georgetown University, the Council of American Ambassadors, the Anti-Defamation League, and the Center for Strategic and International Studies. In 2000, Gildenhorn was honored with the Woodrow Wilson Award for Corporate Citizenship and served as a member of the Wilson Council until his appointment as board chairman. He is married to Alma Gildenhorn, who also serves as a member of the Wilson Council.

LEE H. HAMILTON

Lee Hamilton is president and director of the Woodrow Wilson International Center for Scholars, and the Center on Congress at Indiana University. Prior to becoming director of the Woodrow Wilson Center in 1999, Hamilton served for 34 years in Congress representing Indiana's Ninth District. During his tenure, he served as chairman and ranking member of the House Committee on Foreign Affairs (now the Committee on International Relations), chaired the Subcommittee on Europe and the Middle East from the early 1970s until 1993, the Permanent Select Committee on Intelligence, and the Select Committee to Investigate Covert Arms Transactions with Iran.

Hamilton also served as chair of the Joint Economic Committee, working to promote long-term economic growth and development. As chairman of the Joint Committee on the Organization of Congress and a member of the House Standards of Official Conduct Committee, he was a primary draftsman of several House ethics reforms.

Since leaving the House, Hamilton has served as a commissioner on the influential United States Commission on National Security in the 21st Century (the Hart-Rudman Commission), and was co-chair with former Senator Howard Baker of the Baker-Hamilton Commission to Investigate Certain Security Issues at Los Alamos. He is currently a member of the President's Homeland Security Advisory Council, and serves as vice-chair of the National Commission on Terrorist Attacks Upon the United States (the 9/11 Commission).

Hamilton is a graduate of Depauw University and Indiana University School of Law, as well as the recipient of numerous honorary degrees and national awards for public service. Before his election to Congress, he practiced law in Chicago and Columbus, Indiana.

JAMES R. JONES

James R. Jones is co-chairman of Manatt Jones Global Strategies, which focuses on international trade, investment and commerce, business-government relations, and financial services. He specializes in business development advice and consulting for clients primarily in Mexico and Latin America. He has also worked extensively with global distribution and marketing organizations targeting Latin America, Asia, and the Middle East.

Prior to joining Manatt, Jones served as U.S. ambassador to Mexico (1993-1997), where he was very successful in his leadership during the Mexican peso crisis, the passage and implementation of NAFTA, and in developing new, cooperative efforts to combat drug trafficking. He also assisted U.S. businesses with commercial ventures in Mexico.

His previous experience also includes the position of president at Warnaco International, as well as chairman and CEO of the American Stock Exchange in New York (1989–1993). During his tenure at AMEX, listing, revenues, and market share increased.

As a member of the U.S. House of Representatives from Oklahoma (1973–1987), Jones was chairman of the House Budget Committee and a ranking member of the House Ways and Means Committee, where he was active in tax, international trade, Social Security, and health care policy.

Jones was only 28 when President Lyndon Johnson selected him as appointments secretary, the position presently entitled chief of staff. He was the youngest person in history to hold this position.

BRIAN MULRONEY

Having served as prime minister of Canada for almost nine years, in 1993 the Right Honorable Brian Mulroney returned to the law firm of Ogilvy Renault as senior partner.

Mulroney led his party to the largest parliamentary victory in Canadian history, and was sworn in as Canada's 18th prime minister on September 17, 1984. His government was re-elected with a majority for a second mandate on November 21, 1988.

The major achievements of his government include the Canada-U.S. Free Trade Agreement, NAFTA, the Canada-U.S. Acid Rain Treaty, tax reform, deregulation, privatization, and reduction in government spending.

On June 11, 1983, Mulroney was elected leader of the Progressive Conservative Party of Canada. He subsequently won election to the House of Commons on August 29, 1983, representing the riding of the Central Nova, Nova Scotia. He entered the House of Commons as leader of the opposition on September 12, 1983. Mulroney was re-elected to the House of Commons on September 17, 1984 and again on November 21, 1988.

Mulroney holds a Bachelor of Arts (Honors) degree in political science from St. Francis Xavier University, Antigonish, Nova Scotia, and a Bachelor of Laws from l'Université Laval, Quebec City. Doctorates of Law Honoris Causa have been conferred upon him by leading universities around the world.

Mulroney was born in Baie-Comeau, Quebec, on March 20, 1939, is married to Mila, and is father to four children: Caroline, Benedict, Mark, and Nicolas.

CARLOS SALINAS DE GORTARI

Born on April 3, 1948 in Mexico City, Carlos Salinas de Gortari was president of Mexico from 1988 to 1994.

As president he introduced several reforms, including the regularization of rural property, the reestablishment of relationships with the Vatican, and the creation of a national human rights ombudsman.

President Salinas also took steps to open the protected Mexican economy to both foreign investment and foreign competition. In 1992 he signed the North American Free Trade Agreement with President George Bush of the United States and Prime Minister Brian Mulroney of Canada. The treaty came into force in January 1994 after being approved by the national legislatures of the three countries.

In addition, President Salinas introduced a program of economic retrenchment and privatization. He sold off several of state-owned corporations to private investors and invested the obtained resources in infrastructure and social services, mainly through the Solidaridad program.

President Salinas joined the Institutional Revolutionary Party (PRI) at age 18. From 1971 on he held successively more important economic-affairs posts in the government. In 1982, Salinas was appointed minister of planning and the budget, a post that he held until the PRI named him its presidential candidate for the 1988 elections.

In 2000 President Salinas published *Mexico: The Policy and Politics of Modernization* (Random House, 2001) about his administration. He has also published several books and texts on civil society, economic liberalization, and the formation of social capital.

President Salinas holds a B.A. from the Universidad Nacional Autónoma de México (1971) and an M.P.A., M.A., and Ph.D. in political economy and government from Harvard University.

SUSAN P. SYLVESTER

Susan P. Sylvester is the U.S. General Services Administration's general manager of the International Trade Center at the Ronald Reagan Building and International Trade Center (RRB/ITC). The building is not only the government's second largest office building (after the Pentagon), but one of the nation's largest and most attractive mixed-use facilities. It conveys the United States' recognition of the importance of trade in linking countries and communities. Additionally, the RRB/ITC serves as the headquarters for the U.S. Agency for International Development, U.S. Customs and Border Protection, the Woodrow Wilson International Center for Scholars, as well as key com-

ponents of the Environmental Protection Agency and the Department of Commerce.

The ITC has become Washington's premier conference center hosting a wide variety of corporate, social, and government events. Sylvester has worked on this challenging project for nearly ten years from design, construction, programming, and now operations. She is also project director of the major redevelopment plan of the Woodrow Wilson Plaza and Daniel P. Moynihan Place, known as Culture and Commerce Bridging the Federal Triangle.

Before joining the GSA, Sylvester worked in the private sector as a commercial real estate broker for Insignia/ESG (formerly Barnes, Morris & Pardoe, Inc.) specializing in investment sales. She graduated from the University of Maryland and has completed numerous graduate and professional development programs. She is currently participating in the GSA's Advanced Leadership Development program for their senior managers.

MICHAEL WILSON

Michael Wilson is president and chief executive officer of UBS Global Asset Management in Canada. He was formerly president and chief executive officer of Brinson Canada Co. (formerly RT Capital Management Inc.).

Prior to July 2000, Wilson was vice-chairman and director of RBC Dominion Securities Inc. He has held senior federal cabinet posts with the government of Canada in Finance, Industry, Science and Technology, and International Trade. Wilson is director of a number of companies, including BP p.l.c. and Manulife Financial Corporation.

Wilson has been active in a number of community organizations in Canada and the United States including the Centre for Addiction and Mental Health and the Canadian Neuroscience Partnership. He is also senior chairman of the Business and Economic Roundtable on Mental Health and in that capacity has spoken frequently about mental illness in the workplace.

Among other accomplishments, Wilson was responsible for the NAFTA negotiations. In January 1994, he formed Michael Wilson International to provide advice and assistance to companies seeking to expand their international business activities through projects, joint ventures, and major procurement orders.

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