U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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For Immediate Release
Monday, Sept. 11, 2006

Grassley Highlights Benefits to U.S. Producers, Economy of NAFTA at Year 12

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, with jurisdiction over international trade, today said the North American Free Trade Agreement (NAFTA) continues to benefit U.S. producers, including agricultural producers, as well as the economies of the United States, Canada, and Mexico. Grassley's comments came in connection with a subcommittee hearing on NAFTA at year 12. His comments follow here.

Submitted for the Record
Statement of Senator Chuck Grassley
International Trade Subcommittee of the Finance Committee
Hearing on "NAFTA at Year Twelve"
Monday, September 11, 2006

I'd like to begin by thanking today's witnesses for appearing at this hearing. The topic of the hearing, "NAFTA at Year Twelve," is important, and the Finance Committee will benefit from your testimony. I'd like to extend a special greeting to Craig Lang, a dairy farmer from Brooklyn, Iowa, and President of the Iowa Farm Bureau, who is testifying today.

The North American Free Trade Agreement (NAFTA) entered into force on January 1, 1994. I voted in 1993 for the bill implementing this agreement because I was confident that NAFTA would provide significant benefits for the United States. I know today, more than twelve years after the implementation of NAFTA, that my vote was the right one.

NAFTA resulted in the creation of the world's largest free trade area. The lowering of barriers to trade between the United States, Mexico, and Canada, contributed to the combined 2005 gross domestic product (GDP) of the NAFTA countries of $14.3 trillion, approximately one-third of the world's GDP. Between 1993 and 2005, total trade between the NAFTA countries grew 172 percent, and during those same years, U.S. exports to Mexico increased by 189 percent and to Canada by 111 percent. The 48 percent growth in the U.S. economy between 1993 and 2005 can be attributed, in part, to NAFTA. The level of U.S. unemployment has fallen since the implementation of NAFTA, from an average of 7 percent from 1982-1993 to 5 percent from 1994-2005, and the United States has added 22.6 million jobs since 1993.

Our NAFTA partners, Mexico and Canada, are now the largest export market for 46 of the 50 states, including my state of Iowa. In fact, 49 percent of Iowa's total merchandise exports – both manufactured and agricultural products – went to Mexico and Canada in 2005. Iowa's merchandise exports for 2005 to Mexico and Canada were $2.4 billion above their level for 1993, an increase of about 224 percent.

As a senator from Iowa, I'm especially interested in the impact of NAFTA on U.S. agriculture.

NAFTA has been, overall, very positive for U.S. farmers. Between 1992 and 2005, while U.S. agricultural exports to the world grew by 46 percent, U.S. agricultural exports to Mexico and Canada increased by an even greater 128 percent. Some 32 percent of all U.S. agricultural exports went to these two countries in 2005, up from 21 percent in 1993. Under NAFTA, U.S. agricultural exports to Canada have doubled, from $5.3 billion in 1993 to $10.6 billion in 2005, and have more than doubled to Mexico, from $3.6 billion in 1993 to $9.4 billion in 2005.

The major Iowa agricultural commodities of corn, soybeans, pork, and beef – which are also top farm products of other states – have benefited significantly from NAFTA. Between 1993 and 2005, U.S. exports of each of these products to Mexico more than doubled, and Mexico is now the largest export market for U.S. beef and the second-largest market for U.S. pork, corn, and soybeans. U.S. exports of corn to Canada more than doubled between 1993 and 2005, and soybean exports to Canada have increased by 50 percent. While U.S. beef exports to Canada dropped by over 50 percent during that same time period, U.S. exports to Canada of another meat – pork – have grown twelve-fold. In addition, while U.S. market share in the Canadian beef market is down, Mexico became the largest export market for U.S. beef in 2004.

While the United States has benefited overall from the NAFTA, that doesn't mean that U.S. trade relations with our NAFTA partners haven't been without problems. For example, Mexico imposed a 20 percent tax on soft drinks containing high fructose corn syrup (HFCS) on January 1, 2002. This tax was designed to block exports to Mexico of U.S. produced HFCS and U.S. corn designated for processing at Mexican HFCS plants. I worked to help make sure that the United States challenged this tax through the dispute settlement process of the World Trade Organization (WTO), and the WTO determined last year that this tax indeed violated Mexico's WTO commitments. Fortunately, the United States and Mexico reached an agreement two months ago by which Mexico will eliminate its discriminatory tax. I'd like to thank one of today's witnesses, John Melle, Deputy Assistant U.S. Trade Representative for North America, for his work in seeing that this HFCS agreement was reached. In the coming months, I'll monitor steps taken to implement this agreement.

Although I hope the HFCS dispute is now behind us, some disputes between the United States and its NAFTA partners remain, and others will undoubtedly arise. Regardless, NAFTA has been, overall, a great success for the United States.

It's important to point out that our NAFTA partners have also benefited from this agreement. While both Canada and Mexico have gained from NAFTA, I'd like to focus on Mexico, given that some critics contend that NAFTA has been of little value to that country. According to the Mexico's Ministry of the Economy, Mexico's GDP has increased by 43 percent over the past ten years. Mexico added over 590,000 jobs in 2005, and it looks like the number of jobs created in 2006 could reach 900,000. Economic growth and job growth in Mexico can be attributed, in part, to NAFTA-induced increases in foreign direct investment (FDI) in Mexico. FDI in Mexico averaged $2.1 billion from 1986 to 1993, reached almost $18 billion in 2005, and could hit $20 billion in 2006.

By locking in economic reforms, NAFTA has helped to bring economic stability to Mexico. Mexican families have benefited by the near disappearance of inflation, which was at just 3.3 percent in 2005, a marked drop from pre-NAFTA inflation of, for example, 159 percent in 1987. Likewise, Mexican consumers – who faced annual interest rates of 96 percent in 1987 – saw interest rates of just 9.2 percent last year.

With regard to Mexican agriculture, Mexico's agricultural exports to the United States have increased by $5.6 billion over the past twelve years, compared with U.S. agricultural exports to Mexico increasing by $5.7 billion during that same time period, which demonstrates that the growth in agricultural trade between the United States and Mexico has been quite balanced under NAFTA. I'd also like to note that while some critics of NAFTA claim that U.S. exports have devastated Mexican corn production, this isn't the case. Production of corn in Mexico has remained remarkably stable since NAFTA was implemented – Mexico produced 19 million metric tons of corn in 1993/94 compared to 22 million metric tons in 2004/2005. U.S. corn exports have supplemented Mexican corn production and go largely to Mexico's growing livestock industries.

Finally, the benefits of NAFTA to Mexico are more than economic. I'm convinced that there's a link between NAFTA and Mexico's significant movement to democracy following 1993. After all, free markets tend to lead to free elections.

It's clear, some twelve years after its implementation, that NAFTA has been a success for the United States, Mexico, and Canada. This agreement will continue to benefit the United States and its NAFTA partners in the coming years.

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