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*Parliamentary Summit for Hemispheric Integration*  
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**Theme: The NAFTA Experience and Hemispheric Integration**

Thank you Chairman Neves for organizing this Summit. Given the fact that we have entered the final two-year phase of the FTAA, which Brazil and the US will co-chair, it is very important to examine issues of regarding hemispheric integration.

**Why Regional Agreements?**

I am very happy to share the very successful experience we and our two partners have had with NAFTA and to discuss its implications for the FTAA.

In Article XXIV of the GATT, its drafters recognized that regional trade liberalization and integration has the potential to further expand global trade and investment and therefore, should be an option available to members of the GATT under certain conditions.

The U.S.'s goal is to one day fully liberalize trade on a global level under the auspices of the WTO. Our recent proposal in the WTO on agricultural liberalization, our forthcoming proposal on industrial liberalization, and our exchange of proposals on services all support that goal.

The United States sees regional integration as a valuable, and perhaps essential, step towards that goal. As countries and enterprises become more comfortable with liberalization at the bilateral or subregional level, they gain confidence in opening their economies at the hemispheric and global level.

For this reason, NAFTA and preferential U.S. programs such as the Caribbean Basin Economic Recovery Act and the Andean Trade Preferences Act serve as stepping-stones to hemispheric and global trade liberalization.

Thus, the Administration's approach is to promote free trade in our Hemisphere through simultaneous negotiations at the global level (WTO), regional level (FTAA), and bilateral or sub regional level. This creates a constructive competition for liberalization among our trading partners. The various negotiations are mutually reinforcing.

It is for this reason that we are engaged in free trade negotiations with Chile and Singapore and recently notified Congress under our Trade Promotion Authority of our

intention to initiate similar negotiations with Central America, Morocco, the South African Customs Union and Australia.

### **NAFTA's Benefits for Mexico**

Of course our principal free trade agreement is the NAFTA – the North American Free Trade Agreement – among the US, Canada and Mexico.

Our two-way trade with our NAFTA partners has been particularly dynamic since 1994, it has nearly doubled increasing from \$333.2 billion in 1994 to \$612.6 billion in 2001, which is one million every minute and exceeds our trade with Europe (EU) and Japan combined.

For Mexico, NAFTA represented truly a turning point in its relations with the United States. By sitting down at the bargaining table with the U.S., Mexico committed itself to outward looking, market based economic policies, and gained the benefits of guaranteed comprehensive duty-free preferential access to the U.S. and Canadian markets at the same time. The results have been overwhelmingly positive for all three countries.

1. Mexico's exports to the United States have increased by 144% since the entry into force of NAFTA and reached \$101 billion in 2001.
- 2. More than half of the 3.5 millions jobs created in Mexico since 1995 are connected to trade.
- 3. NAFTA also has contributed to Mexico's resilience in the globalized economy. Following the 1982 peso crisis, it took 7 years for Mexico to be able to borrow again in international financial markets and 7 years for U.S. exports to Mexico to recover to their pre-crisis level. With the help of NAFTA, after the 1994 peso crisis, it took Mexico only 7 months to return to international financial markets, and only 17 months for the U.S. to recover its level of exports to Mexico.
- 4 NAFTA also contributed to the political modernization of Mexico, as evidenced by the election of Vicente Fox, the first non-PRI president in modern Mexican history. Rule of law, transparency in government regulations, broader participation by citizens and freedom from the State - all are values promoted and reinforced by the NAFTA.

### **Benefits of NAFTA for the U.S.**

While the United States benefits from having Mexico as a stable and growing neighbor, we joined the NAFTA to promote U.S. economic growth.

Exports represented one quarter of U.S. growth over the past decade—and don't forget

imports generate jobs too.

- U.S. merchandise exports to NAFTA partners nearly doubled since entry into force of the agreement on January 1, 1994—significantly higher than the 44% growth in exports to the rest of the world in the same time frame.

Expanding exports through trade liberalization agreements creates better-paying, more stable jobs.

- In the U.S. wages of workers in manufactured goods exports are 13-18% higher than the national average in manufacturing. Exporting plants are approximately 10% less likely to shut down than comparable non-exporting plants.

Reducing import duties is equivalent to reducing taxes, especially on products of greatest importance to many families' budgets (e.g., clothing, food, automobiles, appliances etc.)

- Effect's of the tariff cuts under NAFTA and the Uruguay Round have been the equivalent of a tax cut of \$1300-\$2000 per year for a family of four.
- Imports of vital inputs (including fuel) for higher-value manufacturing makes American businesses more competitive internationally.

### **NAFTA's Mutual Benefits**

- **Investment**

Critics of NAFTA, when told Mexico had the higher tariffs and other restrictions on trade in goods, shifted their complaints to investment, predicting a tremendous exodus of capital from the United States. Let's look at the figures:

Between 1994 and 2000, cumulative foreign direct investment (FDI) inflows in the NAFTA countries reached US\$1.27 trillion, or about 28 percent of the world total.

The United States received approximately US\$148.8 billion per year, more than triple for the same period, while the annual average in the seven years prior to the agreement was one-third this level, or US\$44.7 billion.

The same is true for Canada - a four-fold FDI increase (to US\$21.3 billion), and Mexico - a three-fold FDI increase (to US\$11.7 billion) before and after NAFTA.

- **Jobs**

Those that oppose trade agreements argue from the assumed truth that there is always a loser in every trade, i.e. that international trade is a zero sum game. Since consumers

have clearly benefited from an increased flow of goods and tax cuts in the form of tariff eliminations, and since all three countries have experienced increased investment flows, it must follow, critics will argue, that all of this has come at the expense of workers.

Again, the facts suggest all three economies have been winners overall:

In the United States, employment supported by merchandise exports to NAFTA countries grew to an estimated 2.9 million jobs, up over 914,000 jobs since 1993 a more than 50% increase..

- In Mexico, the export sector is the country's leading job creation engine, for more than half of Mexican manufacturing jobs gained between 1994 and 2000. These jobs pay nearly 40 percent more than those in the rest of the manufacturing sector.
- Mexican labor costs have risen by 54 percent since 1997, while the peso has appreciated over the last year. Clearly, those who predicted a "race to the bottom" for workers have been proven wrong.

#### **FTAA: Integral Part of Regional Policy:**

The success of NAFTA has been one of the reasons that the US has such a strong commitment to the Free Trade Area of the Americas (FTAA).

- The FTAA is the cornerstone and framework of our trade and investment policy in the Western Hemisphere.
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Through the FTAA the 34 democratically governed countries of the hemisphere aim to eliminate tariffs, lower barriers and trade distorting measures, and create environment of open exchange of goods and services throughout region. FTAA also will solidify and strengthen ongoing unilateral, bilateral and regional efforts to reduce obstacles to trade, increase transparency and competition, reduce and streamline regulation, improve the investment climate and protect intellectual property rights (IPR).

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- FTAA will create a common set of rules, uniform standards and predictable procedures from the Arctic Circle to the Antarctic.
- FTAA is key to hemispheric economic development and poverty alleviation as well as integration.

But FTAA is much more than a commercial project – it is an important part of, as President Bush said, building a prosperous, free and democratic hemisphere.

Whether in government procurement or foreign investment regulations or settling

bilateral trade disputes, the FTAA promises transparency and due process. By ending discriminatory and unfair practices and increasing openness, the FTAA builds momentum and provides additional resources for political and social reform.

- The FTAA is just one part of the Summit of the Americas process, which supports unified efforts to promote human rights; improve education, protect the environment; and fight corruption, HIV-AIDS, and drug trafficking.
- The future prosperity of the hemisphere depends on our shared commitment and drive to build democracy, security and market-based development. They go together, and each depends on the other.

Free markets and free trade are the hemisphere's best hope against poverty, disease and tyranny.

Especially at this time when people see the difficult road of economic liberalization and reform and wonder if it is the right path, we need to remember that the way forward has been not through closing markets and raising barriers, as some advocate – this is the road to economic inefficiency, stagnation, and greater economic inequalities in society.

From Europe to Africa to Asia and Latin America, those countries that prosper over the long term are those that become more, not less, integrated with the global economy. Successful countries practice open trade and deregulation in domestic markets, not protectionism. Fiscal discipline and privatization of inefficient state enterprises, not cronyism. Sound monetary policies and economic reforms, not short-cuts.

Over the last five to ten years, for example, Mexico, Chile and Costa Rica have provided examples of the possibilities and promise that result from these policies. They are now rewarded with growth, investment and expanding trade.

### **Conclusion:**

The conclusion to be drawn from the experience of the countries in NAFTA, all of whom are involved in similar bilateral FTA negotiations (both Mexico and Canada have concluded additional agreements with Chile and Costa Rica), is that free trade arrangements make significant contributions to better economic performance and to the achievement of broader economic and social goals.

The 34 countries of the FTAA have come a long way since the FTAA was launched at the 1994 Miami Summit of the Americas. We are on the verge of realizing an historic achievement of an unprecedented partnership for prosperity for our citizens. We must not waiver in our commitment to this goal. The attitude of national legislatures in all our countries will be a critical factor in determining if we keep to this course. The US Congress, by enacting Trade Promotion Authority, has provided the Bush Administration with the tools to complete the negotiations. We hope that the legislatures of our trading partners and

neighbors will provide their negotiators with comparable political mandates and support.