

## NAFTA

*Adapted from the broadcast audio segment; use the audio player to listen to the story in its entirety.*

Today, over 80% of Mexico's exports head north to the United States, and U.S. businesses invest nearly \$100 billion a year in the economy of Mexico. The economic relationship was not always close despite the 2,000-mile common border. For decades, stiff trading barriers made Mexico one of the most protected economies in the world. All that changed when Mexico, the United States and Canada entered a blockbuster trade deal.

The North American Free Trade Agreement, NAFTA, created the world's largest trading block, making it bigger than the European common market with a combined population of 370 million and a gross domestic product of more than \$6.5 trillion. This agreement eliminates tariffs and other trade restrictions between the three countries over 15 years. It will expand markets in automobiles, banking, energy, telecommunications, agriculture, textiles and other areas.

The history of this agreement begins with financial calamity. The 1982 currency crisis that rocked Mexico not only plunged the country into deep debt, it started to change of Mexico's protectionist mindset. A new generation of Mexican leaders now sought to liberalize trade and attract foreign investment. Mexican President Carlos Salinas went to the Davos World Economic Forum in February of 1990 with a goal of enticing European investors. His minister of trade and industry, Jaime Serra Puche, accompanied him.

"We visited Davos and we realized in 1990 that investors from all over the world were not thinking of Mexico as an opportunity. We figured that by having NAFTA that would change. We approached the U.S. government at Davos."

President Salinas' decision was a dramatic shift in Mexican policy. After years of viewing their much larger northern neighbor with trepidation, Mexico was now prepared to open itself to Uncle Sam.

Carla Hills served as the U.S. Trade Representative. She met with the Mexican delegation about a trade agreement.

"Jaime Serra Puche approached me to see whether that would be possible. President Bush (one) was very much in favor of opening markets. His vision was it would be great if we could have free trade from the tip of Alaska down to the tip of Argentina. That would enhance not only economic growth but also our security. The reason Canada came in was that it did not want to be left out. There was a party and they wanted to come."

Common ground was important, but there were plenty of devils in the details. It took over 14 months for swarms of economists, lawyers and trade experts to hammer out an agreement on issues ranging from intellectual property rights to automobiles and agriculture. In the end, they achieved consensus on a landmark trade deal that ran over 1,000 pages long.

Reaching an agreement between the countries was only half the battle. It still had to be ratified by Congress, and NAFTA quickly became a political football in the midst of a heated election battle.

During the presidential election, then Governor Clinton cautiously endorsed NAFTA with a proviso that additional labor and environmental standards needed to be negotiated. When Clinton was elected in November of 1992, getting NAFTA to pass Congress became one of his top priorities.

Labor unions were against NAFTA and Clinton was not able to get traction with Congress. In the spring of 1993, he tabbed James Jones to be the U.S. ambassador to Mexico and to help pass NAFTA.

Soon after Jones arrived in Mexico City, he realized that ignorance and bias on both sides of the border created suspicion about the trade deal.

"Until 1994, all the tax books in Mexico taught that the United States stole half of Mexico. Well, that one thing when you are a child and you learn the view of the United States, it gives you a very strong prejudice against Americans and a distrust of Americans. By the same token, even in members of Congress who should know better, [their idea] was still Pancho Villa and a donkey and something like that. When you have ignorance of another people or another society, that leads to prejudice."

Prejudice wasn't the only factor that set off alarm bells about NAFTA. Mexican businessmen gave Serra Puche an earful.

"I would receive them, and they would say, 'But Minister, they are going to flood out the hell out of us. We are not competitive enough because we don't have the skill, the size. We don't have the technology. We don't have the knowledge of the market. They do because they already used to export to all over the world and so on.'"

In the end, NAFTA passed the house by a vote of 234 to 200. Three days later, the Senate approved the deal. The result of NAFTA was a surge in trade and investment throughout North America. Hills believes it was the right move.

"I think the reduction of trade barriers has enabled the three economies to expand and thrive. Trade is up three fold. Competitiveness is strong. The integration is beneficial. In the old days, you had to pay such a high tariff you would ignore. Now if you need a windshield wiper from Mexico and a car door from Canada, you can put together your combined efforts."

NAFTA increased prosperity in both Mexico and the United States. Some labor intensive production did move south of the border where wages were cheaper, and some traditional American manufacturing jobs did as well. Despite the rhetoric on both sides, most economists agreed that deal had a minimal effect on either the creation or the loss of jobs.

But when the United States plunged into a deep recession, it took Mexico along with it. The economic downturn in the U.S. paled in comparison to that of its southern neighbor and that has many Mexicans starting to worry about their country's close connections with the United States. Serra Puche acknowledges that economic ties are intricately bound.

"When industrial activity in the U.S. was growing, we were growing very well along with that industrial production. Now that it has come down, we have gone down, too. But it's part of the nature of the integration of the two economies. It's explained by the fact that we are close to each other."

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