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THE ECONOMIC RELATIONSHIP BETWEEN THE UNITED STATES, CANADA, AND MEXICO

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BEFORE THE

COMMITTEE ON FOREIGN RELATIONS UNITED STATES SENATE

ONE HUNDRED FIFTEENTH CONGRESS

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THE ECONOMIC RELATIONSHIP BETWEEN THE UNITED STATES, CANADA, AND MEXICO

TUESDAY, JANUARY 30, 2018

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met, pursuant to notice, at 2:35 p.m., in room SD–419, Dirksen Senate Office Building, Hon. Bob Corker, chairman of the committee, presiding.

Present: Senators Corker [presiding], Risch, Flake, Young, Isakson, Cardin, Menendez, Coons, Udall, Murphy, Merkley, and Booker.

OPENING STATEMENT OF HON. BOB CORKER, U.S. SENATOR FROM TENNESSEE

The CHAIRMAN. Call the Foreign Relations meeting to order. I apologize for—we usually start exactly on time. We have got some complications today. Senator Cardin is held up in a meeting and will be here just in a few moments. Republicans had an off-campus meeting, and so they are late getting here, a rush to get here on time.

But, I want to thank our distinguished witnesses for being here. We are honored that you would come to present to us on this topic. It is one of the most distinguished panels we have had in some time. So, we thank you very much for this.

I am going to make an opening comment. Senator Cardin is not. He is going to be delayed. And then we will move right into testimony. But, again, I cannot thank you enough for being here.

I do want to, in addition to the witnesses, in our audience today we do have David MacNaughton, Ambassador to Canada; Geronimo Guttierez, Ambassador to Mexico; and former Ambassador, who was very much involved with NAFTA in the early days, Derek Burney. So, we thank all three of you for being here.

I will introduce the other witnesses when they begin their testimony.

Today, we will discuss the regional and strategic significance of U.S. economic relationships with our friends to the north and south, Canada and Mexico. I am glad to have such esteemed witnesses before us today to talk about this important issue. Their presence speaks to the high value that Mexico and Canada place on their relations with our country, and highlights the collective understanding that the people of our three countries prosper because of the close economic ties we have developed over the last several decades.

Since the North American Free Trade Agreement entered into force, our merchandise trade with Mexico and Canada has tripled. Canada is now our largest market for the exports of U.S. goods. Mexico is second. And Mexico and Canada now account for 34 percent of all of U.S. exports. The U.S. is the largest foreign investor in both Canada and Mexico. In fact, the U.S. represents nearly half of all the foreign investment in Canada today.

Likewise, for both Mexico and Canada, the U.S. is the largest destination for foreign investment. We have deficits with Mexico and Canada in trade in goods, but we enjoy a surplus with both countries when it comes to services. We can and should periodically review our trade balance with Mexico and Canada to see if improvements can be made without losing sight of the importance of mutual trade for our citizens and businesses.

At 5,500 miles, the United States border with Canada is the longest and most peaceful and international—peaceful international boundary in the world, a truly remarkable fact that we often take for granted. Canadian troops have stood shoulder to shoulder with U.S. troops in numerous conflicts. We cooperate closely, not only on a national level, but our respective states and provinces often have closer connections than most sovereign countries. Canada is truly among America's closest friends and allies.

With Mexico, we are making the North American region the envy of the world in energy development. Canada and the United States deliberately reached out together to include Mexico in our bilateral economic partnership. We understood then that Mexico had its own challenges to address. And, working together, we were able to tackle very different—very difficult issues together, from migration, to trafficking in persons and drugs, to shared water resources, to security, because of the close ties that we have built together. That collaboration, developed in large part because of our pursuit of shared economic prosperity. Our businesses cooperating across borders have helped raise common concerns and cultivate common approaches to solving problems. The North American regional partnership is our most important relationship in the world. And we are here today to reflect on how much these relations affect our three countries.

I want to thank our distinguished panel for sharing their insights, and recognize—well, not recognize—Senator Cardin—I will, when he gets here—for opening comments when—if he does want to make them then.

So, let me just move to our panelists. Again, a very distinguished group.

Our first witness is former Canadian Prime Minister Brian Mulroney. Mr. Mulroney had a long and notable career serving as Canada's Prime Minister from 1984 to 1993. Prime Minister Mulroney played a critical role in the development of the Canada/U.S. Free Trade Agreement and North American Free Trade Agreement. And we thank you for that. I know we talked extensively about that earlier today.

Our second witness is Dr. Jaime—I am sorry—Mr. Jaime Serra Puche. Dr. Serra served as Mexico's Secretary of Finance and Public Credit, Secretary of Trade and Industry. Dr. Serra led Mexico's negotiation and implementation of NAFTA. An economist by train-

ing, Dr. Serra has taught a number of U.S. universities, including Stanford, Princeton, and New York University.

Our third and final witness today is Ambassador Earl Anthony "Tony" Wayne. A career Ambassador, Tony Wayne served as our lead diplomat to Mexico and Argentina and has served as Assistant Secretary for Economics and Business Affairs at the Department of State.

We welcome all three of you.

Would you like to take a moment and give your opening comment before they start?

STATEMENT OF HON. BENJAMIN L. CARDIN, U.S. SENATOR FROM MARYLAND

Senator CARDIN. Thank you, Mr. Chairman.

I apologize for being a few minutes late.

Why do we not go with the opening statements, and then, if you will tolerate an extra 2 minutes on my questioning round, I will make my comments at that point.

The CHAIRMAN. Okay.

So, if we could, if you could summarize your comments in about 5 minutes. I know that the Prime Minister has mentioned he may go a little over. And, obviously, we are more than glad for him to be able to do so.

Mr. Prime Minister, if you would begin, we would appreciate it. And thanks for your leadership on this issue.

STATEMENT OF THE RIGHT HONOURABLE BRIAN MULRONEY, FORMER PRIME MINISTER OF CANADA, MONTREAL, QC

Prime Minister MULRONEY. Thank you, Mr. Chairman, and thank you, Senators, for having us here to discuss, among other things, the North American Free Trade Agreement.

This story, as far as Canada is concerned, begins——

The CHAIRMAN. You might move the mic a little closer.

Prime Minister MULRONEY. Yes, sir. Does that do it?

The CHAIRMAN. We want to make sure we hear every word you have to say.

[Laughter.]

Prime Minister MULRONEY. Well, this story begins at the Shamrock Summit in Quebec City in March of 1985, when President Reagan and I agreed to consider negotiations of a comprehensive free trade agreement between our two countries. Growing protectionism in Congress then was leading to growing estrangement in Canada, vis-a-vis the U.S. The situation was not an encouraging one.

After a highly successful subsequent state visit to Canada, President Reagan reported to the American people, in his weekend radio address from the Oval Office—and I quote him—"We also discussed our current efforts to tear down barriers to commerce and establish free trade between our peoples and countries. The enthusiastic reception that I received from the Canadian Parliament suggests that a free trade agreement between Canada and the United States of America is an idea whose time has come. I pledge to Prime Minister Mulroney and the people of Canada that we are going all out to make this visionary proposal of the Prime Minister a reality. We

will do it for the prosperity and jobs it will create in both of our countries, but, just as important, it will be an example to all the world that free and fair trade, and not protectionism, is the way to progress and economic advancement."

For my part, I had to call and win a general election in 1988 on the Free Trade Agreement. With an economy one-tenth the size of yours, opposition was ferocious. Both opposition parties, interest groups, important media leadership, and so on, rode a wave of anti-Americanism, saying that, "Prime Minister Mulroney loves America so much that he wants to make Canada the 51st State, with himself as Governor, of course."

Well, my response was that the campaign results would prove that there are not enough anti-Americans in Canada to elect a dog-catcher, let alone a Prime Minister. And the results? Well, my government was reelected with another overwhelming majority in Parliament, and the agreement was signed by President Reagan and myself on January 1st, 1989.

Predictions were that Canada, because of its size, vis-a-vis the United States, would get its clock cleaned and that this would be a lose-lose arrangement for both countries.

So, what happened? Trade in goods and services between our two countries exploded by 300 percent. Millions of new jobs were created in both countries. And the relationship grew to be the largest such bilateral arrangement between any two nations in the history of the world: almost 2 billion dollars—U.S. dollars—a day, with trade approaching $635 billion a year.

Canada quickly became the market of choice for U.S. producers, purchasing more goods than from China, Japan, and the U.K., combined. At one point, a few years ago, there was more two-way trade across the Ambassador Bridge from Windsor, Ontario, to Detroit, Michigan—there was more business going across that one bridge than America did with the nation of Japan. Moreover, our trade was always in rough balance. And, in fact, in 2016 the U.S. had a $7.7 billion surplus in its trade in goods and services with Canada. Moreover, Canada and the U.S. have developed during this period one of the world's largest investment relationships, totaling over 840 billion U.S. dollars.

This was powerful confirmation of the prediction of Sir Winston Churchill in a magnificent speech that he made 80 years ago, when he talked about "some chicken and some neck." In that same speech, Churchill described the Canada/U.S. relationship in all of its glory in the following golden words, "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."

When President George Herbert Walker Bush came in, we began with President Salinas and Jaime Serra, his Trade Minister, who is with us today—we began negotiations to include Mexico in our trade agreement, renaming it NAFTA. The foundational document remained the Canada/U.S. Free Trade Agreement, with essential changes to accommodate the specific nature of the Mexican economy and political climate at the time.

It was also unique for another reason, Mr. Chairman. It marked the first time in history that a trade agreement would exist be-

tween two mature industrialized countries, the United States and Canada, both G7 nations, and a developing country, Mexico.

So, what has happened since? Well, NAFTA now constitutes, with almost 500 million people, the largest, richest, and most dynamic free trade area in the world, with a combined GDP of almost $21 trillion a year. With less than 7 percent of the world's population, the NAFTA partners last year represented 28 percent of the total wealth of the world.

Tens of millions of new jobs have been created in the NAFTA countries since the signing of the treaty in 1994, most of them in the United States, obviously, but millions of those jobs coming from intercountry trade between Canada and Mexico and, of course, the U.S.

With an unemployment rate of 4.1 percent, the lowest of any nation in the industrialized world, it is becoming increasing difficult to seriously argue that the U.S. has done poorly with its international trade agreements that create such vast employment opportunities at home and across North America.

NAFTA did not happen by accident. In large measure, it was the result of the leadership and vision of three great American Presidents: Ronald Reagan, George Herbert Walker Bush, and Bill Clinton. I was privileged to know and work closely with all three. They knew that such instruments are much more than documents for accountants to appraise and determine which country gained a little in agriculture compared with another in automotive parts compared with another in energy exports. They understood that such trade arrangements are a vital constituent part of an enlightened foreign policy, not isolated variables to be picked apart and analyzed on a profit-and-loss basis. Such agreements succeed only when all parties benefit. And who can deny that that was the case here?

Such farsighted and generous U.S. leadership gave the world, for example, the Marshall Plan, in which colossal U.S. investments were made to resurrect a Europe defeated and destroyed after World War II. Who today would argue that this was an improvident course for the U.S. inasmuch as it has ensured the creation of a United Europe, democratic and prosperous and free from national hostilities, certainly for the first time in modern history, thereby contributing greatly to the national security of the United States and her allies?

Mr. Chairman, I have always believed, and said many times publicly, that the United States of America, in my judgment, is the greatest democratic republic that God has ever placed on the face of this Earth. Canada is privileged to have the United States as a neighbor and friend. And the United States should thank its lucky stars every day that they have Canada on their northern border. This is the most successful and peaceful bilateral relationship in world history, and one that must be cherished and enhanced by our leadership in a manner that is thoughtful, understanding, and wise. When fear and anger fuel public debate, history teaches us that protectionist impulses can easily become a convenient handmaiden.

But, history, Mr. Chairman, also demonstrates, in Europe, North America, and throughout Asia, that the best antidote to protec-

tionism is more, not less—more liberalized trade that stimulates both economic growth and stronger employment. As President Reagan said, memorably, "We should always remember that protectionism is destructionism."

Another of your successful Presidents, Bill Clinton, said, "Leadership is the capacity to look around the corner of history just a little bit."

Well, that is the leadership challenge confronting the NAFTA negotiators today, to conduct themselves in such a way, in an atmosphere of robust discussions leavened by a spirit of reasonable compromise, that the product of their successful efforts will be viewed by history as a powerful enhancement of Churchill's glowing description of our great nations so many years ago. And Canadians and Americans have fought together, and Canadians and Americans have died together, for 100 years in the defense of freedom. If we summon the courage to defend those values that made our countries so successful, then we will have again contributed significantly to building a world that promotes peace and prosperity for all nations, both at home and around the world.

Thank you, Mr. Chairman and Senators. Thank you very much.

[The prepared statement of Prime Minister Mulroney follows:]

PREPARED STATEMENT OF BRIAN MULRONEY

This story begins at the Shamrock Summit in Quebec City in March of 1985 when President Reagan and I agreed to consider the negotiation of a Comprehensive Free Trade Agreement between our two countries.

Growing protectionism in Congress then was leading to growing estrangement in Canada vis-a-vis the U.S. The situation was not an encouraging one.

After a highly successful subsequent state visit to Canada, President Regain reported to the American people in his weekend radio address: "We also discussed our current efforts to tear down barriers to commerce and establish free trade between our peoples and countries. The enthusiastic reception I received from the Canadian Parliament suggests that a free trade agreement between Canada and the United States is an idea whose time has come. I pledged to Prime Minister Mulroney and the people in Canada that we're going all out to make this visionary proposal of the prime minister a reality. We'll do it for the prosperity and jobs it will create in both our countries; but, just as important, it will be an example to all the world that free and fair trade, and not protectionism, is the way to progress and economic advancement."

For my part, I had to call and win a general election in 1988 on the free trade agreement. With an economy one tenth the size of yours, opposition was ferocious—both opposition parties, interest groups, important media leadership, etc. rode a wave of anti-Americanism saying that Prime Minister Mulroney loves America so much that he wants to make Canada the 51st State—with himself as Governor, of course.

My response was that the campaign results would prove that there are not enough antiAmericans in Canada to elect a dog catcher, let alone a Prime Minister.

RESULTS?

My government was re-elected with another overwhelming majority in Parliament and the FTA agreement was signed by President Reagan and myself on January 1, 1989.

Predictions were that Canada would get its clock cleaned and this would be a lose-lose arrangement for both countries.

SO WHAT HAPPENED?

Trade in goods and services between our two countries exploded by 300 percent, millions of new jobs were created in both countries and the relationship grew to be the largest such bilateral arrangement between any two nations in the history of the world—almost USD $2 billion a day, with trade approaching USD $635 billion per year.

Canada became the market of choice for U.S. producers, purchasing more American goods and services than China, Japan and the UK combined.

At one point a few years ago, there was more two way trade across the Ambassador

Bridge from Windsor, Ontario to Detroit, Michigan than America did with the nation of Japan. And all the while, our trade was in rough balance. In fact, in 2016 the U.S. had a USD $7.7 billion surplus in its goods and services trade with Canada.

Moreover, Canada and the U.S. have developed one of the world's largest investment relationships totalling over USD $840 billion.

This was powerful confirmation of the prediction of Sir Winston Churchill in a major speech 80 years ago who described the Canada-U.S. relationship in all its glory in the following golden words: "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."

When President George H. W. Bush came in, we began negotiations to include Mexico in our trade agreement, renaming it the North American Free Trade Agreement (NAFTA). The foundational document remained the Canada-U.S. FTA with essential changes to accommodate the specific nature of the Mexican economy and political climate at the time.

It was also unique for another reason: it marked the first time in history that a trade agreement would exist between two mature industrialized countries, the U.S. and Canada—both G7 nations—and a developing country, Mexico.

SO WHAT HAS HAPPENED SINCE?

NAFTA now constitutes—with almost 500 million people—the largest, richest and most dynamic free trade area in the world with a combined GDP of almost $21 trillion a year. With less than 7 percent of the world's population, NAFTA partners last year represented 28 percent of the world's total GDP. Tens of millions of new jobs have been created in the NAFTA countries since the signing of the Treaty in 1994—most of them in the U.S. with some many millions of these jobs coming from trade and investment with your NAFTA partners, and vice versa.

With an unemployment rate of 4,1 percent - the lowest of any industrialized country in the world—it is increasingly difficult to seriously argue that the U.S. has done poorly with its international trade agreements, that create such vast employment opportunities at home and across North America.

NAFTA did not just happen by accident. It is the result of the leadership and vision of three great American presidents: Ronald Reagan, George Bush and Bill Clinton. I was privileged to know and work closely with all three.

They knew that such instruments are much more than documents for accountants to appraise and determine which country gained a little in agriculture compared with another benefitting from automotive parts and another still from energy exports. They understood that such trade arrangements are a vital constituent part of enlightened foreign policy, not isolated variables to be picked apart and analyzed on a profit and loss basis. Such agreements succeed only when all parties benefit. And who can deny that was the case here.

Such farsighted and generous U.S. leadership gave the world, for example, the Marshall Plan in which colossal U.S. investments were made to resurrect a Europe, defeated and destroyed after World War II. Who today would argue that this was an improvident course for the U.S. inasmuch as it has ensured the creation of a united Europe—democratic, prosperous and free from national hostilities—certainly for the first time in modern history, thereby contributing greatly to the national security of the United States and its allies.

I have always believed that the United States of America is the greatest democratic republic that God has ever placed on the face of this earth. Canada is privileged to have the United States as a neighbor and friend and the U.S. should thank its lucky stars every day that it has Canada on its northern border. This is the most successful and peaceful bilateral relationship in world history and one that must be cherished and enhanced by our leadership in a manner that is thoughtful, understanding and wise.

When fear and anger fuel public debate, history teaches us that protectionist impulses can easily become a convenient hand-maiden. But history also demonstrates in Europe, North America and throughout Asia that the best antidote to protectionism is more liberalized trade that stimulates both economic growth and stronger employment. As President Reagan said: "We should always remember, protectionism is destructionism".

Another of your successful presidents, Bill Clinton, said: "Leadership is the capacity to look around the corner of history, just a little bit."

Well, that is the leadership challenge confronting the NAFTA negotiators today: to conduct themselves in such a way—in an atmosphere of robust discussions leavened by a spirit of reasonable compromise—that the product of their successful efforts will be viewed by history as a powerful enhancement of Churchill's glowing description of our great nations.

If we summon the courage to defend those values that made our countries so successful, then we will have again contributed significantly to building a world that promotes peace and prosperity for all nations, both at home and around the world.

The CHAIRMAN. Well, thank you very much for that outstanding testimony and giving us a sense of how all this occurred, and a sense of what we need to look to in the future. We thank you so much for being here.

And, with that, Ambassador Wayne.

STATEMENT OF HON. EARL ANTHONY WAYNE, CAREER AMBASSADOR OF THE USA, RETIRED, WASHINGTON, DC

Ambassador WAYNE. Chairman Corker, Ranking Member Cardin, other distinguished members, it is a great pleasure to be here. Thank you for inviting me to participate.

Economic relations and security cooperation across North America have prospered and deepened enormously since the United States, Canada, and Mexico negotiated the North American Free Trade Agreement Twenty-five years ago. Canada and Mexico are now America's top two export markets. A large majority of U.S. States have Canada and/or Mexico as their first and second trading partner.

NAFTA has grown trade almost four times since 1993, to $1.24 trillion. And U.S./Mexico trade ties have grown six times. We trade more with our neighbors than we trade with the European Union, and 1.9 times more than we trade with China. NAFTA commerce supports up to 14 million U.S. jobs. Five million of those jobs are linked to trade with Mexico. And that is seven times as many jobs tied to that bilateral trade as we had in 1993.

America's private sector has built a network of coproduction and trade which has enabled us to become much more efficient, more competitive against Asian exporters, and offer lower prices for American consumers. Manufactured products from Canada and Mexico have the highest content of U.S. goods of any of our trading partners. When one takes account of that American content in Mexican manufactured exports to the U.S., for example, the U.S. deficit is either significantly reduced or eliminated, depending upon the way you do the calculations.

Energy trade and production has also flourished under NAFTA. Energy security is now within our grasp in North America if the three countries continue to develop cross-continental production, connectivity, and policy coordination. Experts say that ending NAFTA would endanger this trend.

Collaboration with Mexico and Canada on homeland security issues, such as terrorism, transnational crime, and border security, have also expanded dramatically. Today, for example, the depth of U.S. cooperation with Mexico to strengthen border security, control migration, and dismantle transnational criminal networks is unprecedented. For example, Mexican officials have turned around hundreds of thousands of Central Americans headed to the United

States in recent years. Mishandling NAFTA negotiations, however, could cause great harm. Pulling out of NAFTA could cost hundreds of thousands of U.S. jobs, raise consumer prices, harm economic growth, create stock market turbulence, and help our global trade competitors. And security cooperation with both neighbors could also be harmed, especially with Mexico. A U.S. withdrawal would undermine U.S./Mexico cooperation on drug trafficking, border security, and migration. It could also put a long-term chill into the relationship.

Several studies forecast high costs for a U.S. withdrawal from NAFTA. Here are three examples:

Potential U.S. employment losses could range from 180,000 to 3.6 million in the first 3 to 5 years, affecting many U.S. States. The sectors hardest hit would be autos, agriculture and food, textiles, services, and other manufacturing. U.S. exports to the world could decline by 2.5 to 5 percent. China, Korea, Japan, and Germany would gain jobs and GDP growth, with China potentially gaining 1.7 to 2 million jobs, according to one study.

Speaking of jobs, it is true that, as a result of NAFTA, some U.S. jobs were moved to Mexico. However, the vast majority of U.S. manufacturing jobs lost in this century seem to have been caused by improvements in productivity and competition with China. This does not help those who lost jobs, however. But, the big culprit is the absence of strong U.S. policies and programs focused on workforce development. And the need for such programs is only going to grow as technology continues to surge through our economy and the way we work.

NAFTA has not been trouble-free. It should be improved and modernized to take care of all that has happened in commerce and in trade agreements since 1993. This is even more important because others, like the European Union, China, and the remaining members of the TPP, are moving ahead with new trade arrangements. A modernized NAFTA should be part of America's trade offense.

The U.S. has threatened to pull out of NAFTA and has sparked criticism from Canada, Mexico, and U.S. business and farm groups, with positions on trade deficits, rules of origin, sunset clauses, dispute settlement, government procurement, and other issues. While the negotiations last week in Canada made some progress, major differences still remain.

In Canada and Mexico, positive views of the United States already dropped significantly in 2017. A U.S. withdrawal from NAFTA would continue that trend. Mexico is holding its presidential and congressional elections in July. A U.S. decision to pull out of NAFTA, or additional moves viewed as unfair toward Mexico, could easily play negatively in that election and with the new president and congress of Mexico. Mexican officials are worried that they will have neither the political space nor the support of their teams to deepen cooperation with the United States if the U.S. ends NAFTA or is perceived as bullying Mexico.

The world is also watching. If the United States is perceived to pursue a "take it or leave it" approach to negotiating with its neighbors, will other nations be eager to engage in bilateral trade negotiations?

The United States has a great opportunity to conclude a state-of-the-art trade agreement with its neighbors. A modernized NAFTA treaty can increase jobs, trade, energy security, and prosperity while making the U.S. and its neighbors more competitive in the world and reinforcing important collaboration against terrorism and organized crime. The alternative path would be costly for the United States. The best outcome is to forge a modernized and improved trade agreement.

Thank you very much.

[The prepared statement of Ambassador Wayne follows:]

PREPARED STATEMENT OF EARL ANTHONY WAYNE

Economic relations across North America have prospered and deepened since the United States, Canada, and Mexico negotiated the North American Free Trade Agreement (NAFTA) twenty five years ago. North America has become a strategic foundation from which all three nations are building their prosperity and security.

The U.S. is very fortunate to have two neighbors committed to market principles and democratic values, with which it can work to compete more effectively against global trading powers and to counter threats from terrorism and transnational organized crime.

Since 9/11, and especially in the last decade, homeland security cooperation has greatly expanded in North America, while at the same time the private sector has expanded continental co-production and trading networks.

North America's geopolitical landscape has changed for the better with NAFTA. In particular, Mexico's relationship with its northern neighbors has been transformed.[1]

We have the opportunity to improve North America's economic relationships with the negotiations to update the NAFTA treaty, and the doors are open to deepen security cooperation with our neighbors. We could also harm the U.S. greatly, however, if we mishandle the NAFTA negotiations. Pulling out of NAFTA, as the administration has threatened, could cost hundreds of thousands of U.S. jobs, raise consumer prices, harm economic growth, create stock market turbulence,[2] and help our major global trade competitors.

Particularly with Mexico, such a U.S. blow to our economic relationship would also undermine vital cooperation in fighting transnational organized crime and joint efforts to improve border security and to inhibit third country immigration. We could well also put a long-term chill into our bilateral relationship.

NAFTA'S VALUE ADDED

Trade within NAFTA has grown almost four times since 1993. U.S.-Mexico trade has grown by six times. NAFTA trade totals some $1.24 trillion a year.[3] That is about $2.4 million a minute. This is more than U.S. trade with the European Union (EU)[4] and 1.9 times what the U.S. trades with China.[5]

NAFTA's trade and investment supports up to 14 million U.S. jobs.[6] Nine million of those jobs are linked to trade with Canada.[7] 4.9 million U.S. jobs are linked to trade with Mexico,[8] which is seven times greater than the number of jobs (700,000) believed tied to U.S.–Mexico trade in 1993.[9]

Canada and Mexico are America's top two export markets. A large majority of U.S. states have Canada or Mexico as a first or second trade partner. This trade is very important for U.S. farmers. In 1993, they exported $8.9 billion in products to our two neighbors. Those sales were $43 billion last year.[10]

Essentially, America's private sector has taken the opportunity of NAFTA to build a complex network of co-production, investment, and trade in which many products cross the border multiple times during the process of production. Production has become more efficient and thus less costly for American consumers, and NAFTA has helped the U.S. compete successfully with Asian production centers.

NAFTA also attracts investment from around the world. These investors do not just produce for the U.S. market, but they also produce for export outside of North America. It is important to recognize that just as the U.S. has built production networks with its neighbors, so have Germany, Japan and China.

A study done for the 2Oth anniversary of NAFTA found that the NAFTA partners are richer each year because of "extra" trade growth. This extra trade growth was estimated to be $127 billion for the U.S., $170 billion for Mexico, and $ 50 billion for Canada.[11]

WHERE DID THE MANUFACTURING JOBS GO?

NAFTA has been criticized for shipping U.S. jobs to Mexico. Certainly, U.S. jobs have moved to Mexico. NAFTA critics argue that, at a minimum, steps should be taken to ensure better labor practices and higher wages in Mexico, and others argue for ending NAFTA.

It is important to recognize, however, that, according to serious economic studies, the vast majority of manufacturing jobs lost in this U.S. this century have been due to improvements in productivity[12] and competition from China.[13] Many U.S. companies that moved jobs to Mexico also created jobs in the U.S., but those jobs often required higher skills than the ones eliminated.[14] These economic studies did not find that NAFTA was a big contributor to the overall job losses, and NAFTA also seems to have produced new jobs as commerce expanded. But, that does not help those who lost jobs and could not find new ones during these years.

A big culprit here, I believe, is the absence of effective U.S. public policies and workforce development programs to help workers who lose jobs because of productivity/technology changes or trade. The U.S. needed and still needs strong workforce development and related programs that facilitate training, retraining, placement and new investments, when economic disruption eliminates jobs. The need for such programs is only going to grow as technology continues to revolutionize the way we produce and work. Workforce development should become a priority action item in North America's agenda.[15]

ENERGY

Energy trade and production has also flourished under NAFTA. Private sector trade, innovation and investment have created a North American market that is highly interdependent and multidirectional. Energy security is within our grasp, if the three countries continue to develop cross-continental production, connectivity and policy coordination.[16] Since Mexico's 2014 energy reforms, U.S. investments there have boomed, and the U.S. now sells more energy products to Mexico than it imports. Experts say that North America's energy trade is taking us toward liquid fuels self-sufficiency as early as 2020. They argue that this trend would be endangered if NAFTA and its investment protections were to end.[17] The December 2017 U.S. National Security Strategy talks about the importance of "energy dominance." Working with our two energy rich neighbors is a good path toward achieving that goal.

MODERNIZING NAFTA: A MAJOR OPPORTUNITY

NAFTA has not been trouble free. The countries have disagreed over a range of issues from sugar, meat, fresh fruit and dairy trade to trucking, temporary work permits, labor rights and tariffs on low value items. There is widespread agreement that NAFTA can be improved and modernized to take account of all that has evolved in the trade arena since 1993, when it was signed.

With this modernization, we have the opportunity to forge a gold standard agreement. This is more important because the United States is participating in only two of the 30 plus trade negotiations underway in the world: the renegotiation of NAFTA and of the U.S.-South Korea FTA.[18]

Others are moving ahead with trade accords. The eleven other members of the TPP negotiation plan to sign an agreement in March. The European Union reached an agreement with Japan in July. It is renegotiating its accord with Mexico, has a relatively new agreement with Canada, and is actively pursuing agreements with others.[19] China is building new trade and investment relationships across Asia with its Belt and Road program and with regional and bilateral trade initiatives.

U.S. goods and services may well be disadvantaged in these markets by higher tariffs and new norms, standards and rules negotiated without the U.S. at the table. This adds additional importance to forging a high-standard agreement with our neighbors, sending a clear signal about the rules and norms expected for trade and investment in the North American marketplace. More broadly, the U.S. needs a trade policy that deepens and expands markets, as well as acting boldly with defensive measures against unfair trade practices by others. NAFTA is part of the U.S.'s trade offense, allowing the U.S. to confirm and secure its two largest export markets and make all three economies more competitive by using continental supply and production chains.[20]

While there are dozens of issues under active negotiation in the NAFTA talks, several important work-areas standout:[21]

Technological advances: NAFTA needs to incorporate the technological advances in commerce since 1993. Cross-border data flows, e-commerce, and exports of digital products need to be incorporated into the agreement, for example.

Customs processes, requirements and points of entry: Inefficient customs and border processes and facilities cost North American businesses billions of dollars. These should be modernized and simplified by taking advantage of online platforms, modern scanning and processing, and better risk-mitigation programs for "trusted" goods and persons that improve security and efficiency. The NAFTA modernization will not solve all these issues, but it can significantly improve current practices and facilitate further improvements. Advances here can also open the doors wider for more participation by small and medium sized companies.

Rules of Origin: Building from industry data and feedback, negotiators should identify ways to increase North American content in manufactured goods and define more efficient ways to track that content.

Labor and the Environment: These issues should be integrated into the new treaty and updated to include provisions from more recent FTAs, including the draft TPP accord. The goal in the labor area is better protection of worker's rights, with additional clout behind enforcement if rights are not respected. U.S. labor unions have targeted poor Mexican practices.[22] Canada has called for improved U.S. labor protections.[23]

Professional Services: The U.S. is a major exporter of services. It has surpluses with Mexico and Canada, but there is great potential for more U.S. exports. The agreement should include provisions to make it easier to provide services across borders, for example, with improved licensing and registration procedures.

Anti-corruption and transparency: The agreement should embody stronger commitments to counter public corruption, promote ethical standards and have more transparency in government practices. The press reports progress on these topics during the latest round of NAFTA talks.

Good regulatory practices: The agreement should deepen and expand the existing bilateral and trilateral dialogues among the three countries, establishing "best in class" practices for regulatory cooperation.

CONTROVERSIAL U.S. POSITIONS AND PROPOSALS

There are normally difficult issues to negotiate in every trade agreement process. But, the U.S. has taken some particularly aggressive stances regarding NAFTA. The U.S. has repeatedly threatened to pull out of the agreement and offered positions that have been sharply criticized not only by Canada and Mexico,[24] but also by U.S. business[25] and farm groups.[26] The negotiators reported that they made some progress over the last week in Montreal, but there is still much work to do.

Trade Deficits: Unlike with China, the U.S. is not accusing Canada and Mexico of wide-ranging unfair trade practices. Rather, U.S. statements indicate that the fact that Mexico has a trade surplus with the U.S. is a sign that the agreement is unfair.

First, many economists argue that focusing on reducing deficits via trade agreements is not a path to success, as national deficits are much more closely linked to overall national savings and spending rates than to individual trade agreements.

Second, in free trade agreements the basic concept is that the rules are fair and that buyers and sellers then freely choose: it is not about managing the trade to assure balanced trade.[27] The U.S. had an overall trade surplus with the countries with which it has a Free Trade Agreement (FTO) in 2015, for example, but it had a deficit with some and a surplus with others.[28] That did not of itself make some of the agreements fair and others unfair.

Third, manufactured goods from Canada and Mexico have the highest content of U.S. goods of any U.S. trading partners—25 percent and 40 percent respectively according to a 2010 study.[29] A Honda CRV in assembled in Jalisco, Mexico has 70 percent Canadian and U.S. content, for example.[30] Motor vehicles exported from Mexico to the U.S. in 2014 had an estimated 38 percent in U.S. content.[31] When one takes account of American content in Mexican manufactured exports to the U.S., analyses have found that the real U.S. deficit is significantly reduced[32] or eliminated.[33]

Rules of Origin: The U.S. put forward a proposal to increase the required amount of "North American" content in motor vehicles to 85 percent from the current 62.5 percent and proposed a requirement that 50 percent of that content be from the U.S.[34] Secretary of Commerce Ross argued in an op-ed that the current situation is gutting U.S. manufacturing.[35]

The North American auto industries and analysts counter argue that the U.S. proposal would endanger thousands of U.S. jobs and harm the auto industry.[36] They

assert that North American content in vehicles produced in Mexico and Canada has, in fact, generally increased since 2011, that the U.S. auto sector is outperforming other U.S. industrial sectors, and that U.S. auto sector employment has increased nearly 6 percent annually since 2008, more than the employment increase in overall manufacturing. These analysts argue that the U.S. proposal would impair the global competitiveness of the auto industry.[37] There are, however no doubt, other ways to improve NAFTA rules of origin, as the negotiators are reportedly now exploring. In Montreal last week, according to press reports the Canadians offered some ideas in this area, which the U.S. did not find as helpful.

Sunset clause: The U.S. has requested that a clause be included, which would automatically kill the treaty after five years unless all three governments agree to extend it.[38] U.S. businesses say that would wreak havoc with planning and investment and aid foreign competition.[39] Mexico and Canada are open to regular reviews of the treaty, but oppose an automatic opt-out.

Government procurement: The U.S. proposes to limit the amount of U.S. government procurement Mexican or Canadian firms can win to be equivalent to what U.S. companies win in their markets. Canada, Mexico and some U.S. companies have expressed opposition to this proposal.

Dispute settlement: The U.S. has proposed watering down NAFTA's provisions for settling disputes (Chapters 11 and 20) and eliminating chapter 19 in the current agreement. Mexico and Canada want to keep the mechanisms,[40] but are open to improvements. Canada is particularly firm on keeping chapter 19, which addresses anti-dumping and countervailing duty cases.[41] U.S. energy firms are outspoken in support of keeping strong investor protections.

Agriculture: There are several contentious agriculture issues, including U.S. efforts to open Canada's dairy market and a U.S. proposal to protect some U.S. growers against Mexican fresh produce exports.[42]

THE ECONOMIC COSTS OF LEAVING NAFTA

Whether a negotiating tactic or not, the administration's threats to pull out of NAFTA are a bit like playing with fire: the costs of leaving NAFTA would be very high for all parties. A number of serious studies are now available estimating the economic costs of a U.S. withdrawal from NAFTA.[43] One of the studies, by Trade Partnership Worldwide LLC, provides a state-by-state breakdown of potential losses for each U.S. state output, exports and employment.[44] (Slides summarizing some of the findings are attached.)

Job Losses: These studies foresee U.S. employment losses ranging from 180,000 to 3.6 million in the first 3–5 years, depending on various post-NAFTA scenarios. The Trade Partnership Worldwide study also forecasts 200,000 to 700,000 fewer U.S. jobs over the longer term.[45] The most affected sectors would be autos and agriculture/food, with textiles, services and other manufacturing also harmed. The impact in Canada is predicted as a loss of 125,000 to 1.2 million jobs. For Mexico, the job losses predicted range from 950,000 to 10.3 million.

GDP Impact: The studies all predict a decline in GDP. For the U.S. the decline could range from 0.09 percent or $16 billion up to a decline of 1.2 percent or $231 billion, depending on the scenario and assumptions made. One study estimates that U.S. consumers would face an added $7 billion a year in higher prices.[46]

Trade: The studies predict a drop in trade across the region and fewer U.S. exports and imports. The Trade Partnership Worldwide study predicts a drop of U.S. exports to the world of 2.5 percent to 5 percent and a drop of U.S. imports ranging between 3.6 percent and 7.5 percent in the first five years. That study finds the negative trade effect continuing in the longer term.[47]

Trade Deficit: A study by Oxford Economics predicts that the trade deficit would not be improved by withdrawing from NAFTA.[48]

States hit hardest: The U.S. Chamber of Commerce argues that an end to NAFTA would severely harm: Michigan, Wisconsin, North Dakota, Texas, Missouri, Ohio, Iowa, Indiana, Arizona, Nebraska, Pennsylvania, and North Carolina.[49]

China and other competitors aided: The Trade Partnership Worldwide study predicts that an end to NAFTA would add 1.7 to 2 million new jobs in China, about 150,000 new jobs in Korea, some 290,000–790,000 jobs in Japan, and 120,000 to 308,000 new jobs in Germany, plus GDP gains for each of those countries.[50]

NEGATIVE MESSAGES TO OUR NEIGHBORS AND THE WORLD

In Canada and Mexico, positive views of the U.S. already plummeted in 2017.

According to Pew polling, in Canada favorable views of the U.S. dropped 22 percent from 65 percent favorable during the last U.S. administration to only 43 per-

cent favorable in the spring of 2017.[51] This is reportedly the lowest score recorded at least since the early 1980s.[52]

The change for the worse is much greater in Mexico, reflecting the stream of critical U.S.

remarks about Mexico, the border wall, and Mexico's NAFTA role. Favorable views of the U.S. fell 36 points from 66 percent favorable in the previous Pew poll. Only 30 percent of Mexicans polled in the spring of 2017 held a favorable view of the U.S. 65 percent of Mexicans polled held unfavorable views their northern neighbor.[53] Subsequent, polling confirmed the negative Mexican public views of bilateral U.S.-Mexico relations. Pollsters report that these are the worst numbers in perception of the United States since at least 1991 and perhaps since the 1950s.[54]

These opinions indicate the U.S. could face long-term damage in bilateral relations, especially with Mexico. Mexico and the U.S. were labeled "Distant Neighbors" in the 1980s because of their strained relationship.[55] Mexico has a long history of mistrust of the United States, which gradually had been overcome since the creation of NAFTA and with growing bilateral cooperation over the last 25 years.

Mexico is holding Presidential and Congressional elections in July. A U.S. decision to pull out of NAFTA or other moves viewed as humiliating and unfair toward Mexico could easily play into that election negatively for the U.S. and impact the policies and attitudes of the new Mexican President and Congress. The leading Mexican presidential candidate, Andres Manuel Lopez Obrador has already called for delaying the negotiations,[56] and some fear that he would take a more nationalist stance on NAFTA if elected.[57]

It is also important to remember that the world is watching how we treat our neighbors and closest trading partners in this negotiation. If the U.S. is perceived to continue with a "take it or leave it" approach and not to recognize the "win-win-win" nature that should be built into lasting commercial relationships, how many other nations will be eager to engage in trade negotiations with the U.S.?

VITAL SECURITY PARTNERS

Mexico and Canada are vital partners for enhancing U.S. homeland security, as well as its prosperity. Both are willing partners to work against terrorism and transnational organized crime. Border, law enforcement, homeland security and intelligence cooperation have expanded dramatically. Both countries are working with the U.S. identify potentially dangerous travelers before they get to U.S. borders. This collaboration is in line with priorities of the new U.S. National Security Strategy,[58] but could well be damaged if the U.S. withdraws from NAFTA.

Defense and intelligence cooperation with Canada are rooted in common NATO membership, but cooperation related to homeland security issues has expanded dramatically in recent years. This is exemplified in the 2011 "Beyond the Border initiative",[59] which has a broad agenda to enhance security against a range of threats while facilitating the legitimate flow of people goods and services. The basic idea is to extend homeland security work as far beyond the actual borders as possible.

A U.S. withdrawal from NAFTA could negatively affect this cooperation. As former Canadian Ambassador to the U.S., Michael Kergin put it January 26 at the Wilson Center "The real concern is if NAFTA goes badly and there is no interest in negotiating, would there be enough political backlash that would incline Canada to step back from security cooperation?"[60]

Regarding Mexico, security cooperation began to deepen with the launch of the Merida Initiative in 2008.[61] The Merida program is aimed at supporting Mexico in the fight against transnational criminal organizations and associated violence, as well as helping to strengthen its justice and law enforcement institutions and practices. That effort was expanded to include the Twenty First Century Border Initiative in 2010, which like the effort with Canada, is aimed at enhancing border security while supporting legitimate commerce.[62]

Under Merida, the United States has spent some $1.6 billion to help strengthen Mexican law enforcement and justice institutions, to improve Mexican capacities at its borders and to help strengthen communities beset by criminal cartels and gangs. American assistance has produced good results. At present, the U.S. is working hard with Merida funds, for example, to strengthen the forensic skills of Mexican officials in order that more criminals can be convicted successfully under Mexico's new justice system.

The Mexican government has spent at least ten times what the U.S. has provided to strengthen its own law enforcement, intelligence and justice agencies. Along with Merida assistance, U.S.

and Mexican law enforcement and homeland security agencies have built more effective operational cooperation against criminal groups and activity. DHS and Mexi-

can counterparts have, for example, signed a series of agreements, which, among other things, allow much better cooperation along the border on customs screening, provide for collaboration to assure the smooth repatriation of criminals, and facilitate the sharing information on criminal history and biometric information to help identify possible terrorists and criminals.

Today, the depth of U.S. cooperation with Mexico to strengthen border security, control migration, and dismantle transnational criminal networks is unprecedented. Mexican officials have stepped up efforts to identify potentially dangerous third country travelers and immigrants in coordination with American counterparts.[63] Mexican immigration officials have turned around hundreds of thousands of Central American immigrants headed to the U.S. in recent years, despite criticism inside Mexico.[64]

Cooperation against drug trafficking by criminal organizations further deepened in 2017 with a strategic action plan agreed between government ministers to attack the entire chain of illegal drugs from production to sales to financing and illicit money flows. This deeper cooperation is spurred on and made more important by the opioid addiction crisis in the U.S. and increasing violence in Mexico.[65] Unprecedented progress has also been achieved in military-to-military cooperation.[66]

U.S.—Mexico bilateral cooperation against transnational organized crime and terrorism makes more sense than ever, but that cooperation is built on maintaining and deepening trust. Mexican officials worry in private that they will have neither the political space nor the support of their teams to deepen cooperation, if the United States ends NAFTA or is perceived as unfairly bullying Mexico. These officials say they want to deepen cooperation against criminal groups because it is good for Mexico, but with the Mexican presidential and congressional elections coming up in July 2018 and the sour Mexican public attitudes toward the United States, they are very concerned. As former Mexican Ambassador to the U.S. Arturo Sarukhan put it at the Wilson Center on January 26: "If NAFTA collapses, all bets are off. It will have a profound, long standing effect . . . future generations will ask 'who lost Mexico?'"[67]

CONCLUSION

The United States has a great opportunity to conclude a "state of the art" trade agreement with its neighbors and largest clients. A modernized NAFTA can improve the existing agreement and increase jobs, trade, energy security, and prosperity, while making the U.S. more competitive in the world. To succeed, however, each of the parties needs to be able to convince their publics that the new agreement is good for them: that it is "win-win-win." This is a very big challenge given the breadth of subject areas under negotiation, the controversial proposals on the table, and the negative public atmosphere.

A new agreement is achievable, however, and worth the hard work. A good agreement would help reinforce the collaboration with both Mexico and Canada on important security issues, and it would tell the world that the U.S. is indeed open for business and trade.

The alternative path would cost the U.S. dearly in jobs, trade, competitiveness and security. It would harm our neighbors economically and further sour their views of the United States. It would make ensuring U.S. homeland security harder. Particularly with Mexico, we could see a return to the "distant" relationship that existed before NAFTA. Other potential international partners would become more hesitant about negotiating with the U.S., and our international competitors would benefit.

A much better outcome for the United States and for North America is to forge a renewed North American trade agreement and to continue to deepen security cooperation.

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The CHAIRMAN. Thank you. Great testimony.

Dr. Serra.

STATEMENT OF HON. JAIME SERRA PUCHE, FORMER SECRETARY OF COMMERCE AND INDUSTRY OF MEXICO, MEXICO CITY, MX

Dr. SERRA. Thank you, Mr. Chairman. Thanks for the invitation. It is wonderful to have this opportunity and to be in the company of wonderful people, like Prime Minister Mulroney, who has—I have not seen in 25 years. It is wonderful to see that you are exactly the same.

Prime Minister MULRONEY. I wish.

[Laughter.]

Dr. SERRA. Mr. Chairman——

The CHAIRMAN. He told me you looked exactly the same, too.

[Laughter.]

Dr. SERRA. Mr. Chairman, I just realized how quickly 5 minutes go by, so I am going to make five points.

The CHAIRMAN. Okay.

Dr. SERRA. Five points.

The first one is that world trade is changing by creating regions. When NAFTA was registered on the—Article 24 in the—WTO. They had—of something like 40-plus regional agreements. Today, there are more than 270 agreements. And out of total world trade, more than half takes place under regional rules, not global rules.

So, what has happened in the last 20 years or so is that the competition in trade is more and more among regions, and less and less among countries. So, I think that premise is very important to understand, because it tells you a little bit about what is the cost of breaking down a region that we have created in North America. Point number one.

Point number two is the integration that has taken place under the NAFTA rules in North America. This integration has been market-driven and has resulted in increasing trade and investment flows, converging economic cycles and macroeconomic stability in the North American . All of these things have happened mostly from market-driven mechanisms, not from regulators. This integration only experienced a decline on two occasions. Otherwise, in the last 24 years, it has been growing systematically and very consistently. The two occasions when we experienced a temporary decline were when China joined the WTO and at the time of the Lehman Brother crisis. Very specific moments on very specific issues. But, if you look at the curve of integration, even taking into account these two moments, growth has been exponential.

So, the integration has already happened. Actually, people that discuss this refer to the "scrambled-egg phenomenon," that once you scramble an egg, it is impossible to unscramble it. Some of the things that have happened in Mexico, the U.S., and Canada as a result of NAFTA is going to be very difficult to undo. And it would be very costly to undo them, it would create a very large social cost for the three countries.

And the third point is that this relationship has moved into a new paradigm. We are not only selling and buying products from each other, but we are also producing them jointly. And this is quite important, because these are very different mechanisms from the ones we have in the traditional trade agreement. And I will give you an example of how that has happened. For every dollar that—there are several stories, but this is a very serious story from the NBR—for every dollar that Mexico exports to the U.S., we incorporate 40 cents of American inputs. For every dollar that the Chinese export to the U.S., they incorporate 4 cents of American inputs. So, it is a completely different scheme. There are some concerns—and I think there are legitimate concerns—about the competition with China; let me make it clear that our relationship with the U.S. and Canada under the NAFTA rules is completely different. It is a completely different paradigm. And I think it is very important to understand this high percentage of content, because it will give you a sense of the kind of losses that we could have if NAFTA was to be on the trouble.

The fourth point, quickly, is how competitive the region is. The region has become very competitive over the last years. We are competitive because we have complementarity in demographic terms, because we have complementarity in capital endowment terms. Not only that, but we have liberalized energy sectors in Mexico, which gives us an opportunity, as Ambassador Wayne was saying, to ensure energy security in the region. Also because, as you look at the region, the connectivity in the region has increased dramatically as a result of all this growth and convergence. Any protectionist measure introduced into the NAFTA agreement will

attempt against the competitiveness of the North America region vis-a-vis all the other regions of the world. I think that the objective of any agreement modernization should be to make our region more, not less, competitive.

And I would just like to finish, Mr. Chairman, with one final comment. NAFTA, that is a rules-based agreement, has enabled this increasing integration. Which means, basically, that, by increasing the competitiveness of the region through measures that are market-driven, we will actually find that NAFTA is part of the solution, and not part of the problem, of the sort of relationship that we have with Asia and with non-market economies. And NAFTA will be a very important tool, and is a very important tool, to compete even with non-market economies.

Actually, Mr. Chairman, I think that what NAFTA has done over the last 20-plus years is to make us realize that, for trade issues and many other issues, Canada, Mexico, and the U.S. are in the same side of the table. They are not on different sides of the table. And I think that is very good news for us, because, at the end of the day, all we know that we will stay being partners and neighbors forever.

The CHAIRMAN. Thank you, all three, for outstanding testimony. And I am going to turn—out of respect, I am going to turn to Senator Cardin, who missed his opening comments, and certainly ask him, if he needs extra time, to please take it. But, thank you——

Senator CARDIN. Well, thank you very much, Mr. Chairman.

I want to thank Chairman Corker for convening this hearing. This—we always have distinguished witnesses, but I think this panel is just an extraordinary group of people who have done so much.

The former Prime Minister, Mr. Mulroney, I remember very well your leadership in Canada, and I agree with your statement that we are fortunate, in America, to have you as our northern neighbor. And, Ambassador Wayne, you have a distinguished career as a career diplomat, and, Dr. Serra, as your leadership in Mexico on the commerce issue.

So, we have a—really, an extraordinary panel, and I thank you very much.

The U.S./Canada/Mexico relationship is critically important for the United States. It is important for our economic security. And you all gave a lot of numbers, but it translates into economic prosperity for all three countries. For our national security, there is no question about that. We share a common vision about the global security issues. Canada and Mexico represent the second- and third-largest trading partners for the United States. From my State of Maryland, we export $2 billion—2 billion—to Canada and Mexico. Canada is our number-one export partner.

So, Canada, critical for our security, NATO partner, NORAD, the work that you are doing with us in fighting terrorism in Afghanistan, Iraq, in Syria, the list goes on and on and on. And on governance issues, I very much recently respect the leadership of the Canadian Parliament, government, on Global Magnitsky, on helping us on extractive industries transparency. We have been together on all these issues. So, it is true, we have been a partner country that has made America a stronger nation.

And Mexico is the same thing. Mexico, we share so much together. I think about one of our key issues today, the opioid crisis. Our partnership with Mexico on counternarcotics is critically important to dealing with this issue. And that cooperation is very, very important. So, the relationships between Canada and Mexico and the United States is very important to our country.

I have had serious concerns about how President Trump has managed that relationship. Because I think it has caused damage. And I—the first thing I can point to is public opinion. The public opinion in Mexico, the public opinion in Canada about the confidence of the United States has diminished. And that should be a matter of concern for all of us.

I was in Mexico not too long ago and had a chance to talk to my counterparts from the Mexican Senate. And they were not very diplomatic in the manner in which they talked about the way President Trump has talked about immigration and the wall, and how offensive that is to the people of Mexico. So, I think we have to recognize there has been damage done in that relationship, and we need to figure out how we can strengthen it.

In regards to the economics between the three countries, NAFTA is an important part. It needs to be continued. But, I think we all agree, it needs to be modernized. So, I do not think we should be concerned about modernization, but we have to make sure that it continues.

And I have put on that list, recognizing that, when NAFTA was passed, we thought that we were being very forward when we took labor and environment and put them in side-bar agreements. Well, modern trade agreements recognize that needs to be in the core of a trade agreement, and that needs to be modernized. On behalf of America, we need a level playing field for the competitiveness of our labor force, and that needs to be in the negotiations. We need to expand environmental commitments. And again, these should be core parts.

And we need to modernize our trade agreements, as we were doing in the TPP, on anticorruption provisions. And I think the work that was done in the TPP needs to be incorporated into a modern NAFTA agreement.

Which leads me to my last point, which will be the question that I will ask. And that is, the damage that has been done—we are talking about NAFTA, primarily today, but the United States, under President Trump, announced that it would withdraw from TPP, the Trans-Pacific Partnership. Yet, Canada and Mexico are part of the 11 member states that are negotiating a TPP. And, without the United States part of that, I would like to get your observations as to what that means for the United States, in being left behind in TPP, recognizing that China is actively engaged in United States, Canada, Mexico, in every one of these TPP countries. If you could just share with us your observations of what the absence of the United States in the TPP negotiations—how you see that playing out for our region.

Prime Minister MULRONEY. Well, thank you, Senator.

Not being a member of the current government in Canada, I have to be somewhat reserved in my opinions, but I can tell you that Canada, of course, has signed up with the new agreement,

with the 11. And I think that was a wise decision. Although, in the back of my mind, I always realize that, if the United States in world affairs is not playing a leadership role in an organization, or trying to solve a problem, the consequences sometimes are less than impressive. In these circumstances, I think the hope is that the illustration of embryonic success by the 11 will encourage America to take another look at this and, at some point, sign on to what is clearly going to be—it already represents 40 percent of the world's GDP, and it is clearly going to be, I think, a successful initiative. But, without America, it is not as great as it could be. So, my hope is that, eventually, America will sign on.

I have no doubt whatsoever that the Government of Canada made the right decision by signing on to TPP, as they negotiated a free trade agreement with Europe and as they are going to negotiate a free trade agreement with—hopefully, with Japan, India, and, ultimately, China. This is the wave of the future.

Senator CARDIN. Ambassador Wayne, what does it mean for the United States that successful TPP, with 11 rather than with the U.S.?

Ambassador WAYNE. Well, there are two aspects of this, economically. One is that the U.S. products could face higher tariffs when they are being sold into these member countries. And secondly is that the norms, standards, and rules that have been negotiated do not really reflect U.S. input. There is some U.S. input, because they were building off of the draft when the U.S. participated. But, my understanding is that a number of the areas that the U.S. was working to have included or strengthened are not included as the U.S. would have liked it in this new agreement. So, the U.S. will just have another set of rules and norms that are out there. And that is the general problem with all of the trade arrangements that are being negotiated when the U.S. is not out there helping to set those best practices, to help set those norms. It disadvantages our exports.

Senator CARDIN. Do we lose market share to China as a result of this?

Ambassador WAYNE. I do not think we lose market share to China as a result of this TPP agreement, but we do have to recognize that China is active around the world, negotiating its own trade agreements, and also, with its Belt and Road Initiative, which involves investment and other types of economic relationships, they are out there, they have lower standards for the agreements, as we would say, from our perspective. And, to the degree that we are not helping set models that are in—that fit our objectives, that is harmful. And this even stands for friends, like the European Union, because they have a different set of standards and norms that they favor. And if they are expanding agreements to those around the world, it will eventually harm U.S. exports or make U.S. businesses adapt those norms when they are selling overseas.

Senator CARDIN. Just quickly, Dr. Serra, is Mexico, in—to a certain degree, covering its bet in the event that NAFTA does not come out the way that it wants it to, that it has other options through the TPP 11?

Dr. SERRA. No, I do not think so. TPP is a very important initiative. TPP with the U.S. is one thing. TPP without the U.S. is a different animal. And I am afraid that part of the attraction of this decision goes with the scale of trade and the access to the markets. Mexico is part of these 11—this new definition of TPP with 11 countries. But, we have to be clear, that is important, it is part of the diversification of our exports, but, let us be clear, it is not a substitute for NAFTA, because our natural market is North America.

Senator CARDIN. Thank you.

Prime Minister MULRONEY. Mr. Cardin, may I just throw in one word, please?

Senator CARDIN. Sure.

Prime Minister MULRONEY. In a general response to your inquiry. There is an expression in French which says it all: [French expression]. Rough translation: If you take yourself out of a game, you are going to lose. And, as I have said, I think that, without American leadership, very few things come to the fruition that they might deserve. And I think this is a backgrounder for some of the things that are going on.

Senator CARDIN. Thank you.

The CHAIRMAN. Senator Isakson.

Senator ISAKSON. Thank you, Mr. Chairman.

You know, if I had had my wish list 20 years ago, when I got elected to the Congress of the United States, as to who I would like most to meet and hear from in a hearing or in my capacity as a Senator or Representative, Brian Mulroney probably would have been at the top of that list. So, it is a big treat for me to have you here today. You are a great leader, and—a great leader for Canada, and we appreciate your being here today. I do not say that because I am going to ask a load of questions. I just said that——

[Laughter.]

Senator ISAKSON. But, I appreciate what you said about being in the game. I am so worried—I am very much a pro-trade person, and have voted that way throughout my career. I think, if we disengage from the marketplace, or if we go from the sidelines to the bleachers, that we are going to watch things happen to us rather than be a part of making things happen for the world and be a positive catalyst.

When PNTR was before the United States Congress in 1999, I voted for it, Permanent Normal Trade Relations with China. And I did, because China then ascended to the WTO. And, for the first time, we were in an organization that had a governing body and a judicial element to it, the WTO, where we could go after our trading partners for abuse of trade agreements or treatment of one another. The Chinese had been robbing the southern United States of the textile industry for years. And the very first thing we did after we went in—after they went in the World Trade Organization, is, we sued China on four different textile products, won three of them, reestablished our place in the market, and gained a level of respect in the trade world, where we were not taken advantage of before, where we had been before because of our absence and nonengagement.

So, I appreciate your testimony. My belief is, very strongly, that we should stay in NAFTA and we should do everything we can to make it work and make it strong. And I am going to continue to vote that way.

But, you said something—all three of you addressed it, one way or another, and I would like for you, all three, to answer. How do you—as you work on the re-ratification or extension or renewal of NAFTA, how do you create an agreement that can be more modernized on its own movement as it goes through? I mean, I tell you we have done—there are things in NAFTA we did not do 25 years ago, we should have done. Now there are things that need to be modernized. Is there something we can do in negotiating the new agreement that can put in an element that will require modernization as the time goes by?

Prime Minister MULRONEY. Well, you know, Senator, thank you. And when I negotiated, for example, the original free trade agreement with President Reagan—and I am getting a little long in the tooth, but there were no cell phones, there was no Internet. And so, things have changed enormously. So, NAFTA can be modernized very seriously, and improved. It has to be updated, and so on. But, the fundamentals are absolutely strong. How can it be otherwise with the—what Jaime mentioned, which you are alluding to? This is not an isolated variable, the United States, anymore. You are—we are—everybody is competing with the European Union, with big trade blocks in China and in Southeast Asia. And we have merged, fortunately, into a major trading power, ourselves, here in North America.

So, when we take on the competition, we are—we come from a rules-based organization that is prosperous and powerful—the most prosperous in the world, and we should take advantage of that cohesion to bring about greater stability, greater respect for rules-based organizations around the world, and the economic clout that comes when the United States is involved with its partners in making good things happen elsewhere. So, I think that we have got a terrific future ahead of us if we can consolidate now.

My fear in what is happening, Senator, is that some people are interested in making perfection the enemy of the good. We have got a great trade agreement now that benefits the three countries enormously. And if you want to improve it, fine. Everybody is open to that. But, if you want to make it perfect and say, "Perfection is the way I see the world, and it has to be the way I want it," then I do not think we are going to get there.

And—but, I think that the process is unfolding. And this is a very helpful event here today.

Senator ISAKSON. Any other comment?

Ambassador WAYNE. Well, thanks very much, Senator.

I think, as the Prime Minister said, one of the key things to do is to take account of the technology that has advanced, and the kind of trade that we have today—e-commerce, big data flows, digital flows in trade across the borders. We have improved IPR practices during the years. We also need to look at customs processes and requirements and points of entry, because billions of dollars are lost every year by slowdowns at the border.

We do need to look at the rules of origin—a complicated task, but they can be made—they can be made more efficient. And there is a lot of data out there, from the industries, that we should work with to see what can be fixed.

Labor and environment do need to be incorporated, and best practices from all of the FTAs since then, including the TPP negotiations, and made best practices in this treaty. The same thing is true with regulatory cooperation. We have regulatory dialogues with both neighbors. We can turn this into a really state-of-the-art example of how we can work together on regulation.

Professional services is an area where the United States is really strong. Services. We already, as was mentioned, we already have a surplus, but there is a lot more trade that can be going on if we can make some progress in that area.

And then, finally, the anticorruption and transparency is part of those best practices from other agreements that should be in there. And I hear they reached agreement on the anticorruption chapter over this last week, which is good news.

Senator ISAKSON. Thank you very much.

Dr. SERRA. Probably the best example that NAFTA needs to modernize is the fact that the technological innovation that was the top innovation when we were negotiating NAFTA was the mechanism to communicate was through the fax. So, that gives you an idea of how much room we need to modernize. But, I think that we have to modernize the agreement without protectionism.

Senator ISAKSON. Yeah.

Dr. SERRA. Non-protectionist modernization should be the word for the negotiating, in my opinion, Mr. Senator.

Senator ISAKSON. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Thank you both.

Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman. And thank you for a very distinguished panel to provide your insights.

I think this hearing comes at a precipitous time for both economic partnerships and partnerships with the United States, in general. And the President remains obsessed with a campaign slogan that implies the United States is happy to go it alone, questioning longstanding treaties and positions of international leadership. So, ultimately, I fear that puts the United States at a strong disadvantage when it comes to building productive partnerships that benefit all Americans.

It does not seem in the interests of the United States, for example, for our leader to routinely denigrate entire countries and their citizens, countries like Mexico, for example, which the United States has a nearly 600-billion-dollar-per-year trading relationship, and on which about 5 million American jobs depend. So, with that concern as the framework, let me ask a couple of questions.

Secretary Serra, as you know, the President has been adamant that Mexico would need to pay for a new border wall between the United States and Mexico. And his latest estimates to Congress are around $25 billion. Earlier this month, in fact, the President said he would use NAFTA negotiations to get Mexico to pay for his wall.

As a former Mexican Ministry of Commerce and Industry, do you believe that the Mexican government will renegotiate NAFTA in a way that would pay for the wall?

Dr. SERRA. I am very happy that the Mexican Ambassador is here so that he can respond to that question, because I am not a specialist——

[Laughter.]

Dr. SERRA. —on the issue. But, no, I am not sure I could be very precise in my answer, but what I can tell you, Senator, is that——

Senator MENENDEZ. Well, if you were back in your role as the Secretary of Commerce, do you envision yourself, on behalf of your country, negotiating NAFTA in a way that would pay for the wall?

Dr. SERRA. No. But, I can add one thing—may I—in one second?

Senator MENENDEZ. Surely.

Dr. SERRA. When you hear these numbers over the trade flows between our—among our three countries, it is obvious that the connectivity of the region has increased dramatically. Mexico used to export $100 million a day. Today, Mexico exports a billion dollars today. So, if you want to stop that driven market force with a wall, you will not be able to stop it. And it actually will create some social costs, because people benefit from all this trade. So, I think that the approach should be different. I understand that we have to have an intelligent border, an efficient border, but not a protectionist border.

Senator MENENDEZ. Ambassador Wayne, let me ask you. In your years of diplomatic service, and as a former Ambassador to Mexico, does this threat make any sense to you, in terms of diplomatic relations or a negotiation posture?

Ambassador WAYNE. What I can say is that the favorable views of the United States have dropped from over 60 percent to 30 percent in Mexico. And it is, I am sure, because of the strain of critical remarks being made by the United States. And that is just not a good state of affairs.

We worked, from NAFTA forward, to really change the relationship with Mexico, to build trust and to build cooperation. And this has been quite successful. And you can track that growing cooperation and growing trust. And, in the last 10 years, in the security and—border security and working against organized crime, in those areas, there has been tremendous progress between the two countries in building that trust, and the trust that is needed because both countries need to work against these——

Senator MENENDEZ. And let me——

Ambassador WAYNE. —these threats.

Senator MENENDEZ. —get to that question of trust, because, in a recent Gallup poll from 2016 to 2017, Canadians' approval of U.S. leadership went from 60 percent to 20 percent. Mexican approval of the U.S. fell to 16 percent, the lowest it has been in a quarter century. So, our policy is obviously not driven by international polls. Obviously not. But, I think it affects our soft-power abilities to enter into agreements and negotiations with countries that have such a low view of the United States, because it makes it more difficult for the leaders of those countries, at this time, to engage in some of the review that we want to see of NAFTA. On intellectual property rights, we certainly need to be brought up to date. On a

more vigorous enforcement, some of us would believe, on labor and environment. But, the essence of the agreement, when you try to change it, you have—part of it is public support within your countries—I think the Prime Minister spoke about that—even facing, when there was not necessarily maybe support, and then building that support and seeing the result.

So, I get concerned that our ability to negotiate, whether it be here in this all-important question of NAFTA, or beyond, is affected by how we are viewed in the world, in terms of a populace that is going to have to have—be supporting their leaders to engage the United States in a way that is in the national interests of the United States as well as their own national interests. And I appreciate your insights in that regard.

Prime Minister MULRONEY. Senator, let me step back just for a second and give you a little anecdote that occurred in the Oval Office with President George Herbert Walker Bush. NAFTA was in the process of concluding its negotiations, but we were not there yet. And I am alone with the President, who, in my judgment, had a remarkable knowledge of international affairs, and a nuanced understanding of the world and where it all came down. And President Bush said to me, "You know, Brian, if this thing works out the way the Canada/United States free trade agreement has gone so far, 25 years from now the ideal result might be the following: There will be prosperity in—added prosperity in Canada, in the United States, and in Mexico. But, in Mexico, if, in the northern tier of Mexico, NAFTA generates such employment opportunities and new wealth for Mexico as a developing country—that is what we want for it—if that happens, perhaps we will see the day when more young Mexicans return to Mexico than come to the United States." And I believe—I may be wrong on the numbers—I think that happened last year.

Now, there is an entirely different way—I mean, you are dealing with two problems with—at once, the prosperity of a great trading country like Mexico, the immigration challenge in the United States, and all done in a highly civilized and productive manner.

I was talking to a very prominent business guy the other day in America. He said, "One of our major problems is, we do not have enough immigrants. We are going to have to do something about our immigration policy." And I know that, in Canada, we have a problem, too. Our problem in Canada is, we do not have enough immigrants. We need more. And I have always contended that. And I believe that you do not have a growing dynamic economy without the creative abilities and devotion and loyalty that immigrants bring to their country.

Senator MENENDEZ. Thank you for that insight.

Thank you.

The CHAIRMAN. Thank you.

Senator Young.

Senator YOUNG. Thank you, Chairman.

And thank you, gentlemen, for being here today.

I think I have heard each of you acknowledge that all trade agreements ought to, from time to time, be reviewed and, where possible, modernized. Counterparties to contracts in a nongovernmental setting oftentimes open up the books and see if they can

find ways that might be advantageous to optimize the agreement for all involved. And it would be my hope that that is the direction we will take here.

With that spirit in mind, I want to remind some of those who may be watching the proceedings today about some of the overall benefits to Americans of the NAFTA agreement. Starting with merchandise trade, the Congressional Research Service indicates that, since NAFTA's entry into force, U.S. merchandise trade with its NAFTA partners has more than tripled. Any disagreement, gentlemen?

Prime Minister MULRONEY. No.

Senator YOUNG. Likewise, Canada is the leading destination for U.S. good exports, and Mexico is the second-largest. Any disagreement?

Prime Minister MULRONEY. That is right.

Senator YOUNG. Okay. That is reflected in my home State of Indiana, as well, where Canada is the number-one destination for Hoosier merchandise exports, and Mexico is number two.

Let us look next at trade in services. Between our three countries, the Congressional Research Service tells us that, between the years 1993 and 2016, U.S. private service exports to both Canada and Mexico more than tripled. Do you agree with this?

Prime Minister MULRONEY. Yes.

Senator YOUNG. Pretty powerful.

Let us look at foreign direct investment. From '93 to 2016, foreign direct investment of both Canada and Mexico into the United States dramatically increased. Do you agree with that assessment?

Prime Minister MULRONEY. Yes.

Senator YOUNG. Okay. So, in summary, since NAFTA's entry into force, we have seen a dramatic increase in American merchandise and service exports to Canada and Mexico, and a dramatic increase in Canadian and Mexican investment in the United States that equates directly to more and better-paying jobs for Americans.

So, my constituents, most of them know this, and it is important that they continue to be vocal about the benefits of NAFTA. And, on their behalf, I look forward to working with our partners in Canada and in Mexico, as well as this administration, to make sure that we do not lose sight of the forest from the trees, as it were.

Secretary Serra, you played an integral role in NAFTA negotiation. Now, you mentioned the "scrambled-egg phenomenon," where, once the egg is scrambled, it is pretty hard to unscramble it. We have seen the emergence of advanced emergency—excuse me—advanced manufacturing supply chains. And I do not want to trigger an emergency by trying to unscramble the egg. So, what would happen if NAFTA were to go away, when we have these advanced supply chains, particularly in the automotive sector, which is really big in my home State of Indiana?

Dr. SERRA. It is an excellent question. I did not mention it at the beginning, because I did not have time, but one of the most important developments over the last 24 years of NAFTA has been the development of regional value chains. Regional. Which is important. Everybody speaks about global. And it is true. But, in—the regional is stronger and more clear. So, if—then that has been developed, basically, as I was saying, driven by the market, because,

when we eliminated many restrictions to trade between our—among the three countries, the companies were making the decisions of where to invest, how to contact with the other one, where to produce what, and so on. And this development of regional value chains has been so strong that it is the equivalent of the scrambled egg.

If, for some reason—whatever reason the U.S. decides to get out of NAFTA, or to break NAFTA—the NAFTA agreement—most of these very efficient chains will lose money, because they cross—to produce a car, for instance, in North America, I think, is—they have to cross four times, six times, the borders.

Senator YOUNG. So, less dramatically——

Dr. SERRA. No, the——

Senator YOUNG. Oh, I am sorry.

Dr. SERRA. No, no. The borders: if you charge every crossing with small tariffs, even if this tariff is very small, the cost of production is going to go up dramatically, and we are going to lose competitiveness, shooting our own foot as a region, vis-a-vis all the regions in the world.

Senator YOUNG. So, less dramatically, let us assume that there were a change in the rules-of-origin requirements associated with this agreement. What—could that also result in some negative outcomes to both the United States and Mexico?

Dr. SERRA. Yes.

Senator YOUNG. And Canada, as well.

Dr. SERRA. Yes. I will tell you very quickly. The rule of origin was created in the NAFTA, for use in the NAFTA, because the three countries are in a free trade agreement and not in a customs union. For example, the Europeans do not have rules of origin, because all the countries in Europe have the same tariff towards the rest of the world. In NAFTA, the Americans, the Canadians, and the Mexicans have different tariffs vis-a-vis the rest of the world. For somebody that does not belong to the block to enter into the NAFTA block, it could choose the country with the lowest tariff and export to the other two countries from there. So, to ensure that that does not happen, what we say is: "If you want to enter into the regional market, you have to have some regional content to make sure that you are creating value within the region." So, I think we have room to increase regional rules of origin, I think we have flexibility for that.

But, the concept of having national rules of origin, that is a complication, because that is not exactly what the rule of origin is. The domestic requirement really go against the sheer definition of the rule of origin.

But, the concept of having national rules of origin, that is a complication, because that is not exactly what the rule of origin is. The domestic requirement goes—really go against the sheer definition of the rule of origin.

I do not know if I am clear, Mr. Senator.

Senator YOUNG. Well, thank you, Mr. Secretary.

I am out of time. I will just say, there are 150,000 jobs—150,000 Hoosier jobs tied to a vibrant automobile sector. And we certainly have to be careful about disrupting that.

Thank you.

Prime Minister MULRONEY. Senator, if I may just say, in response to Senator Young, 35 American States have Canada as their principal market and investor. In other words, the jobs that are created in those 35 states, for foreign investment and so on, come principally from Canada, a large part of the southern tier come from Mexico. I mean, there are 9 million jobs that are floating around, including 100-and-I-think-90-thousand, or thereabouts, in Indiana, directly from NAFTA.

Senator YOUNG. I am impressed you know that number.

Prime Minister MULRONEY. Yeah.

Senator YOUNG. Thank you.

Prime Minister MULRONEY. Who—but, Senator——

Senator YOUNG. Yes.

Prime Minister MULRONEY. —who, in his right mind, would want to place this in—if I were the Senator from Indiana, and somebody wanted to place this in jeopardy in my state—and I am sure it would be your attitude—there would be one hell of a ruckus, because, you know, "If it ain't broke, don't fix it." We can modernize NAFTA, we can improve it, we can do all kinds of things, but we should not throw it away, because it is worth—well, look at your own state. It is so valuable. Senator Flake's state, which is so indispensable to the well-being of his people. And this is all a people-to-people deal. It is—you know, it sounds highfalutin with NAFTA and so on, and these rules of origin and so on, but it is really about getting jobs and prosperity into the hands of our people.

Senator YOUNG. Thank you.

The CHAIRMAN. Thank you very much.

Senator Merkley.

Deferring to Senator Udall.

Senator UDALL. Oh, thank you. Thank you very much.

I want to thank the panelists here. I have listened to all your testimony, and I think you bring a real wealth of experience to these issues. And so, really appreciate that, that lifetime effort and bringing it here to us.

You know, before he was confirmed, Secretary Ross told me that the NAFTA negotiations would begin shortly after the inauguration and be finalized within months. I mean, I think the term he used with me is, "It is all going to be over in 90 days." And then I met with—Ambassador Lighthizer pledged to me that he would oppose unilateral withdrawal by the United States. And here we are, a year later, and uncertainty still reigns. And the business community, I think all of you know, does not like that uncertainty. They speak out about that quite a lot. And the negotiations drag on. I think some of you said we are in the sixth round, or whatever it is. And the administration continues to threaten unilateral withdrawal. So, this is an uncertain time. And I think it really impacts a state like New Mexico, which has a very good relationship with Mexico, and has a good export situation there, and—both ways. In general, free trade agreements have been negotiated to the benefit of the world's largest corporations and their shareholders. I have consistently argued that they should do much more to guarantee labor protections and secure commitments to environmental stewardship. Now, NAFTA did some of that. NAFTA is no exception. It

went into force nearly 25 years ago, and I support the effort to improve the standing agreement.

But, a quarter-century of implementation means that NAFTA is deeply integrated into the economies of each of our three countries—and you all have really hit on that here today—and that, since 2006, it has had an ever-increasing benefit to jobs and small business in my State of New Mexico. And I will let our entrepreneurs speak for themself. A gentlemen—and, Dr. Serra, you probably know him—Jerry Pacheco, is the president and CEO of my state's Border Industrial Association, which represents more than 100 members. And he says—and I am quoting here—and he says it very well, and that is why I quote him—"Since 1994, NAFTA has been crucial in New Mexico's ability to create thousands of jobs and recruit billions of dollars in investment. Trade with Mexico and Canada offers New Mexico its best opportunity to diversify its economy. With a 350-percent growth rate, New Mexico leads all border states in export growth within the last 10 years. Thousands of New Mexico jobs depend on stable and thriving trade with our two North American neighbors. And this has been made possible by NAFTA," end quote. That is Jerry Pacheco.

The Constitution gives Congress the power to regulate trade with other nations. And this committee has a key role in that power. NAFTA was implemented with laws enacted into Congress. The President cannot unilaterally repeal these laws, even if he can issue unilateral statements about his participation in NAFTA. I think Congress needs to step up and take the reins here and send a clear signal to the administration that we all welcome updating NAFTA with better terms for workers, but this whole thing that is being thrown around, unilateral withdrawal without consent of Congress, is a tactic that is doomed to fail. And if the President tries it out, our economy, especially in border states, will suffer great damage.

My first question to—probably more targeted, but happy to hear, Prime Minister, from you also on this—to Ambassador Wayne and Dr. Serra. Over 25 years, what impact has NAFTA had on the economy along the U.S./Mexico border? What has the agreement done to create jobs and new investments?

And let me just add into there an additional question. In a post-NAFTA world, where would these jobs go? So, you are kind of talking about what has happened and then what would happen if you, in this hypothetical situation, the President says, "We are withdrawing from NAFTA." I mean, what happens?

Ambassador WAYNE. Well, first, just to note—so, today there about a million border crossings—legal border crossings every day tied up with both local commerce and then the commerce that is feeding the rest of both countries, going in both directions. There are production hubs that have developed in different places all along the border, from California down to southern Texas—and, on both sides of the border, also—creating many, many—tens of thousands of jobs in those areas, and generating billions of dollars in business on a regular basis.

If NAFTA went away, some of that would certainly continue, but it would be much more difficult, much less profitable and produc-

tive. I do not know what would take the place for those border communities or those border regions if NAFTA were ended.

Dr. SERRA. Yes, I would add that—not only the border states both in the U.S. and Mexico have benefited dramatically from this liberalization, but in Mexico you are seeing—and I think this is important for the debate on labor—you are seeing how this effect is coming down in the territory. You go to central Mexico, you see prosperity that we did not have in the center of Mexico. It has been happening.

With one very important feature, Senator, and it is that the wages paid by firms involved in trade and by firms involved with foreign direct investment, that receive foreign direct investment, are something like 37 percent higher than the average in the country. So, the gap has not closed as much as we should have closed, but the gap is closing because of this prosperity that is being created and this—you know, freedom and circulation of products and services.

So, the American using the unilateral exit or withdrawal would create a problem not only on the border states, but also in other states that are much more involved with exports and foreign direct investment, which are creating better jobs—better-paid jobs than the average.

So, I think it has consequences not only for the border, but for the whole—in Mexico, for the whole territory, down to the center.

Senator UDALL. Yeah.

Prime Minister MULRONEY. Senator, just a quick word on that.

You may remember, in 1994 a very distinguished voice in America saying that, if we signed NAFTA, there was going to be a giant sucking sound. All——

Senator UDALL. I remember that guy.

Prime Minister MULRONEY. —that all the jobs in Canada and the United States were going to Mexico. All the hockey players in Canada and the dancing girls from Vegas were going to Mexico.

Well, if that were the case, how do you explain today a 4.1 percent unemployment rate in the United States and a similar rate in Canada, and growing prosperity in Mexico? What happened, of course, is that we got together and we built a $21 trillion market with millions and millions of new jobs in North America, in all places. So, I think that—I cannot speak for the southern border, but I can tell you that, on the northern border, the—it is the same phenomenon—that NAFTA has been a great driver of new wealth, and we are learning to share it better, with everybody, in Canada and in America.

Senator UDALL. Mr. Chairman, thank you very much.

I hope Senator Flake introduced his wife, who is out in the audience. Cheryl is out there. I see her.

But, thank you. And sorry for running over.

The CHAIRMAN. No, no problem.

Senator UDALL. Thank you for the courtesy.

The CHAIRMAN. Thank you so much. It is a good question.

Senator Risch.

Senator RISCH. I will not step on your toes, Senator Flake. That is a job that has got to be done. So, I will give you the floor in a minute, here.

First of all, let me say, Mr. Mulroney, I—your statement about "America should be thankful every day, Canada is on the northern border." We are. When I was Governor, I was part of the Border Caucus Governors. And I can tell you that the feeling is good. It is not average; it is good. And so, the only thing I would say to that, though, is, that door swings both ways. The—Canada also ought to be—thank——

Prime Minister MULRONEY. Absolutely.

Senator RISCH. —every day, be thankful that the United States is on its southern border.

The—you know, the interesting thing about this hearing that we are having today is that—the amount of agreement that there is. The hearings we have around here, usually we are at each other's throats or the people that are sitting there are from countries that—where we have great difficulties with. We do not have the kind of great difficulties between these three countries. We are friends, we are partners. As has been mentioned, that is not going to change. Geography is always going to be what it is, and our cultures are very much alike.

What we do disagree on, of course, is—the loyal opposition has a level of vitriol against the chief executive, the head of the second branch of government, that I have—I have done this all my life. I have been in public service all my life. I have never seen a level like it is. And so, as a result of that, it—that persona permeates everything. And the result of that is, we wind up butting heads on just about everything.

But, when it comes to trading with these countries, the President campaigned on an issue that he thought we could do better. And I suspect that people of Canada think they—we can make NAFTA better. And I suspect the people of Mexico think we can make NAFTA better.

We can. We should. And I really think, eventually, that we will. And it will make it better for all parties involved. In my state, softwood lumber is always an issue, Mr. Mulroney, and we spar back and forth, but we get through it. And we are looking forward to that in the future.

You know, when it comes to this relationship, and when it comes to trade in these three countries, failure is not an option, is not a platitude here. This is something that has to be done. The egg cannot be unscrambled. We cannot unintegrate what has happened since NAFTA started. This is a genie that does not go back in the bottle. So, it has to be done. And you are not hearing from Members of Congress, anyone that I know of, saying, "We ought to be out of NAFTA." Can we do better? I think we can do better. And, as you pointed out—well, all of you pointed out—that people of—acting in good faith and in good spirit can reach a conclusion, and must reach a conclusion. And there is no reason that cannot be done.

So, thank you all for your service. Thank you for your input. And it is good to be involved in the hearing, where we have so much in agreement as to—instead of so much that we are arguing about.

Thank you for holding the——

The CHAIRMAN. Thank you.

And Senator Flake, I know, has to preside. And so, what I am going to do is let him have the remainder of time, Senator Risch.

Senator FLAKE. Thank you. Very kind.

I appreciate being here. And I do have to preside, in a minute, but—appreciate what you said, Prime Minister Mulroney, about Mexico and the benefits to Arizona, to my state.

Every day, Mexican shoppers come across the border and spend about $8 million in Arizona. Every year, Arizona has $16 billion in cross-border trade with Mexico, alone. The statistics from the U.S. prior to NAFTA, about $80 billion total, now approaching $600 billion. What is not to like? I think we can all agree that this has been a tremendous success to all of us.

But, I wanted to talk, for a minute, Secretary Serra, and ask about whether these kinds of negotiations on an agreement like this, this important, operate in a vacuum, or are there political ramifications in Mexico, for example, with a presidential election coming up? And how does that play?

Dr. SERRA. Excellent question. They do not operate in a vacuum, that we know. But, one word of care there, because these sort of negotiations have impact in the long term. Variables that come to fruition in the long term. So, to let time drive substance is a mistake. I think substance should be driving timing. And—but, of course, I am not being naive about the political elements in our three countries in the months to come, but if we are able to come up with a modernized NAFTA, non-protectionist NAFTA, non-managed-trade NAFTA within the next weeks or months, perfect. But, I would not like to see the scenario in which, in order to deal with this time limit, we end up having a text that is not what we, the three countries, need and want.

Senator FLAKE. All right. Thank you.

If I could just mention one other thing. With regard to NAFTA, it has been said that the President was thinking of maybe withdrawing, and that somehow in the next 6 months, negotiate a new—or a better agreement, a 2.0. In the meantime, our countries, like Mexico and Canada, prone to maybe move on if we are not seen as a reliable trade partner. Is there that fear or that concern? Should we be concerned about that?

Dr. SERRA. Yes. I serve on a few boards on—in Mexican firms, and the degree of uncertainty that they are facing is resulting in the postponement of capital expenditure. We are already seeing—without any change yet, you are seeing the fact that the expectation that it might not work out in the years to come, people are postponing investments, which hurts everybody here. You hurt the whole region. So, I think that we need to understand that clarity becomes—actually NAFTA—one of the biggest contributions of NAFTA for the region, in my opinion, to give certainty to investors, to give certainty to economic agents. And we are losing that in this period.

Senator FLAKE. Thank you.

The CHAIRMAN. Thank you so much. You want to introduce your spouse?

Senator FLAKE. Yes, my wife, Cheryl, is in the audience here, so—and it is nice to have her here.

Prime Minister MULRONEY. Go quickly, Senator.

Senator FLAKE. All right. Will do.

[Laughter.]

The CHAIRMAN. Thank you.

Senator FLAKE. You are welcome.

The CHAIRMAN. Thank you so much.

Senator Merkley.

Senator MERKLEY. Thank you, Mr. Chairman.

I wanted to ask Mr.—former Secretary Puche, if you and I both have a factory that produces the same thing, and I am in Portland, Oregon, and—well, let us say, for example, I am baking Oreos, and I am paying middle-class American wages, American labor standards and environmental standards. And if there—your factory is in Mexico and you are paying Mexican wages, Mexican environmental standards, Mexican labor standards—who is going to make the Oreos more cheaply?

Dr. SERRA. The—well, let me just bring two things——

Senator MERKLEY. Well, do not give me too long of an explanation, because we—I have only got—I only have 4 and a half minutes left.

Dr. SERRA. Excuse me?

Senator MERKLEY. Do not take up too much time, please. It is a pretty straightforward question.

Dr. SERRA. No, no, I was going to say that—I have no problem with having labor standards improved at all. I mean, in Mexico, everybody wants to earn more.

Senator MERKLEY. Yes. But, that is not my question. Who is going to be able to make the product more cheaply?

Dr. SERRA. More cheaply?

Senator MERKLEY. Yes. Who is going to—the—is it going to be cheaper——

Dr. SERRA. The one that has the lower cost of production.

Senator MERKLEY. Well, okay. So, let me help you answer the question. It is such a simple, straightforward question.

If I have to pay higher wages and higher environmental standards with higher enforcement and higher OSHA standards, safety standards, it is going to be much more expensive for me in Oregon than it is for you, making the same thing in Mexico. And therefore, production, for a company that owns both factories, is going to shift to Mexico, as it has. And, in fact, I brought up Oreos because they are still being baked in Portland, Oregon, but just barely, only because it is the last holdout for the company—the mother company that is moving all of the production to Mexico because the wages they are paying are such a tiny fraction of what they are paying in the United States.

We have seen this with our trucking industry, our—making trucks, manufacturing trucks. We have seen it with so many things.

So, if we look over the last period since World War II—from World War II through 1975, we had a big increase in the standard of American workers. As productivity increased, their wages increased. But, then as we started to do trade deals, not with companies that had similar standards, but countries that had dissimilar standards—and Japan played a role, and China played a role, and then, with NAFTA, Mexico played a role—we have seen that, for

now over four decades, the wages of American workers have been flat. In fact, flat and declining. And so, this is not a win-win if you have an unlevel playing field of this nature and complete access to each other's markets.

You know, I had a chance to work in Mexico in 1979 and 1980, and I was in northern Mexico, and many of the village areas that I was in were profoundly later affected by NAFTA, because the low cost of American chickens and corn drove a lot of people to the cities. And there has been a massing, in the last two decades, growth of the cities in Mexico—and, in fact, the number of those living in poverty, the percent, has stayed at least the same, but it is a lot more people—so a lot more people living in poverty today. The area of the country that I lived in, in northern Mexico, was not controlled by drug cartels then, when I was there. A big change there.

We have—so, I just wanted to draw up a counterpoint to much of the conversation we have heard today, because American workers have not participated in the vast increase in wealth in America in the last four decades, and trade policy has a lot to do with that. And, for those who are painting only a particularly rosy picture of what happens south across the border, the picture is much more complicated. But, I just want to give you a chance to share any thoughts you might have about that.

Dr. SERRA. Thank you, Senator. Let me quickly react to that.

First, every Mexican wants a better income. We are a country of 120 million people, and it is not easy to increase incomes in real terms for 120 million people. Some progress has been made, not that was crucial for that, as I was saying, because people that are involved in trade and investment companies and activities are earning more than the average.

Now, it is true that labor in Mexico is cheaper. No doubt. And that should be an advantage for the region. But, it is also true that the capital is much more expensive in Mexico. So, you have a combination of complementarity, which can be win-win, which is what I have been trying to say. You have a country like Mexico, that is a very young population compared to the U.S. and Canada, where they have a dependency ratio of half of what the Canadians and the Americans have. And that gives you a huge future for growth of labor forces. And, at the same time, Mexico lacks capital compared to the U.S. and Canada. So, those advantages are quite natural. So——

Senator MERKLEY. My time is up. So, I will—I would look forward to continuing the conversation.

But, I think it is important for us to have a complete picture of the view. And it is a situation where, across America, workers' wages have been flat. That has been a big mobilizing political force, on the right and the left in America, the fact that our vast increase of wealth in our country, but workers have not participated in it. And, quite frankly, in Mexico, you have also had a very large increase in the disparity between the top wages and the bottom wages, with the same percent living in poverty now as when NAFTA was passed. So, it is a more complicated picture and puzzle than the very rosy depictions I was hearing here in the room.

Thanks.

Dr. SERRA. May I, Senator, very quickly, just bring one point, quickly, Senator?

You think that that situation would be better off without NAFTA?

Senator MERKLEY. I do think that there are pieces of this that were profoundly affected, villages that were profoundly affected by American corn and chickens. It is—as I say, it is a complicated picture, and I would be happy to take that up with you.

Dr. SERRA. Sure. Just remind you that your exports of grains and corn sold to Mexico are gigantic, and that we export vegetables and fruits in a very successful manner. There is a natural complementarity on agricultural activity between the two countries. But, we can talk about it later.

Thank you, Chairman.

The CHAIRMAN. Thank you. Thank you very much.

Senator Coons.

Senator COONS. Thank you, Mr. Chairman.

I would like to thank the panel. It is a very distinguished panel. I am grateful for the time you have dedicated today.

Let me ask a couple of questions that are just in the matter of cleanup, things that occurred to me in the course of the hearing that are of interest to me, perhaps.

First, if the United States were to withdraw from NAFTA, if there were some abrupt effort by our President to withdraw and then try and force a renegotiation, how would that impact our Nation's cooperation on other issues, whether it is international affairs, border security, continental defense? I would be interested in hearing that, certainly from you, Mr. Prime Minister, and Minister Serra.

Prime Minister MULRONEY. Well, thank you, Senator. It would—in that hypothesis, which I am very reluctant to contemplate——

Senator COONS. Me, too.

Prime Minister MULRONEY. —but if it—just for the sake of the question, this would have an extremely deleterious impact on our relationship. Canada and the United States cooperate in ways that few other countries in the world, if any——

Senator COONS. Right.

Prime Minister MULRONEY. —do. We have security considerations. We have got border considerations. We, for example, fought together in all the wars of the past. We have come together. We are democratic countries. The same traditions. And so, you know, we work together on ISIS. We have an exchange of security and intelligence that is remarkable. The United States has, in Canada, a loyal and devoted friend and ally in every way. And it has been that way for 200 years. There is no relationship like this in the history of the world. There has not been a shot fired in anger across that border in about 220-odd years. And even then, it was a couple of Irishmen, you know, got out of line and made a little invasion, a little skirmish. And that is about it. In that skirmish, we captured Detroit, and we gave it back.

So, there is—we have a marvelous relationship—bilateral relationship, the cooperation and the trust that is required between us. And it is like any sovereign nation, your sovereignty—the great strength and power of the United States of America in foreign pol-

icy and in the military is based on your economy. You have an 18- or 19-trillion-dollar economy. That is what generates the capacity to provide world leadership.

Well, trade contributes to that in Canada a great deal. And if we are—if that is amputated from our relationship, our cooperation and security, in ISIS and in the military and NATO and NORAD, all of these things, is lessened, because it diminishes our wealth and our capacity to contribute to joint or trilateral endeavors when they involve Mexico.

So, I would say, Senator, that this would be an extremely unfortunate and regrettable event.

Senator COONS. Let me follow up on that, if I might, before I invite you to follow up as well. There was an earlier exchange about the regard—the opinion of most Mexicans of the United States. And we—I do not think there was a follow-on discussion about the Canadian opinion of the United States. I would argue that our global leadership, of course, is rooted in a very strong, robust, diverse economy, but also in our values, in values that we deeply share——

Prime Minister MULRONEY. Yes.

Senator COONS. —in a commitment to liberty and to human rights and to democracy and to free press. What has the trend recently been in the Canadian opinion of the United States? To what do you attribute it? And what do you think we could or should be doing to strengthen our joint leadership globally that is values-driven in addition to those that are based in our economic——

Prime Minister MULRONEY. Well, Senator, my opinion of the United States is unchanged. I—it has been like that since I was a kid. I view the United States in an extremely favorable way. And it is a matter of values that we have defended together and fought together and died together, as I said earlier, in the defense of our freedoms. So, this, to me, is very personal, and it is very important.

As in Canada, we realize that elections come and elections go, and new people are brought in, swept in by the voters, and swept out again. That is the way it is. Sometimes we—I suppose, in Canada, because we see so much of the United States, we develop friendships or respect, you know, for one, as opposed to the other, but we realize that decisions of this type are exclusively reserved for the people of the United States of America. You choose whomever you wish, and we work with him or her and their administrations. And we do the same thing in Canada. There are no perfect governments, with the possible exception of my own.

[Laughter.]

Prime Minister MULRONEY. But, you know, this is a fact of political life.

We are just—as the Senator was saying a moment ago, and as I have said, we are honored and privileged to have the United States as our best friend and neighbor, and America should get up every morning and thank God that they have got Canada on their northern border. That is the way it has been for all these years. And, you know, you choose your government, we choose ours. And we manage to get along very well.

Senator COONS. Thank you for a very respectful and diplomatic answer.

[Laughter.]

Senator COONS. Secretary Serra, if you might, and then I have one more quick question.

Dr. SERRA. I am going to be less diplomatic, because I am not a good diplomat.

But, I think that all of—somebody mentioned it, but I think that what you have seen over the last 24 years is a sense, in Mexico, that we belong to North America, and that we are neighbors with the U.S. Anti-Americanism in Mexico has gone down over the last 24 years. Over the recent mid times, this is going up. The easiest thing for a Mexican politician to organize is a 3-million-people demonstration against the U.S. That is the easiest thing. So, we really need to work out on mechanisms, timing, and a review of things soon, because if this anti-Americanism goes up and we have elections soon, it is going to be reflected there. That is the reality.

Senator COONS. And are those demonstrations—to put a point on it——

Dr. SERRA. No, I am not saying——

Senator COONS. —are they anti-American or that are opposed to some of the policies of the current administration?

Dr. SERRA. Three million people——

Senator COONS. Is there a distinction?

Dr. SERRA. Yeah, 3 million people do not distinguish——

Senator COONS. Do not make a big distinction. Okay.

Well, I am very concerned by reports of ongoing Russian interference, attempts to influence the upcoming Mexican election.

Let me ask a closing question of the three of you. One of the ways in which I would hope you would agree that NAFTA should be modernized is with regards to cybersecurity and to digital privacy. When it was initially negotiated, the U.S. had not, itself, enacted domestic laws to address digital piracy. The DMCA—the Digital Millennium Copyright Act was not law here. I hope you would agree it is important that a renegotiated NAFTA come up to a standard for IP protection that is at least comparable to current U.S. law. And I would be interested in what you think we should be doing jointly, both for IP protection and to protect against, I think, a shared threat to our democracies from Russia.

Dr. SERRA. In the case of Mexico, I can tell you that it would make a lot of sense to negotiate this. We have a lot to learn, but also we have a lot to contribute in this process. And I am sure that Mexico would be more than happy to negotiate on this front of cybersecurity and data management, as well. It is only natural for us to do it.

And I would add, as well, the agreement that was achieved yesterday in Montreal about anticorruption, which is also very important for the NAFTA area, because the U.S. has the FCPA mechanism that could put—in an economy that also have the clear anticorruption rules, could put—I mean, American players in different playing level. And the fact that now we have an agreement—a potential agreement on anticorruption is fundamental and is very important.

Prime Minister MULRONEY. I second that motion, Senator. It is obvious that this is the kind of intimate cooperation that only comes from the trust generated through our wonderful trading re-

lationship. People see the relationship not only as something esoteric and to be read about in the newspapers, but as something that provides for them and their families and their children every morning. You know, Senator, the—our friend, the Senator from Indiana, Senator Young, there are 190,000 jobs in his state that depends directly on Canada. We take that seriously. This is serious. I think there are 28,000 or so in your state, Senator. We take that seriously. Because it affects the families, the kids and so on. And we are aware of our responsibility in that regard. And we are also aware of the necessary action that we have got to take in the area you mentioned to keep those safe.

Senator COONS. Thank you.

Ambassador, a closing comment?

Ambassador WAYNE. Just add that I fully agree that we should update this agreement in protection of intellectual property. In fact, it should be a gold-standard agreement. This is—we have two negotiations going on now, a relook at the U.S./Korea negotiation and this one. They are the only two the United States is participating in. We need to establish as high and as forward-looking standards as we can in this modernization of this treaty, because it can become a model for others in the future. That is very important.

I am not sure exactly how cybersecurity should be incorporated, but we should look at that—should be looked at very carefully. And even not only in the treaty, there should be trilateral cooperation to tackle these cybersecurity threats, because people are going to go around and through in any way they can get into North America. I think that is true. And you are correct that there is a danger of Russian interference, and they are using their media outlets to target messages—there is no question about that—everywhere that they can, including in Mexico.

Senator COONS. Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator COONS. Thank you very much, to the panel.

The CHAIRMAN. I want to thank our three outstanding witnesses for being here today. And I do not think we could have had a better panel, nor a better session, to discuss the benefits of NAFTA, but also those things that should be modernized.

It is my sense that modernization is where the administration is heading. I think that the three of you have laid out aspirational goals to cause this agreement not only to improve, but to be a gold standard, as you just mentioned. And I hope, with the input of Senators and House members on both sides of the aisle that are pushing for that, and just because of their own concerns about trade and the relationship that we have between our three countries, that that is where we are going.

So, I thank you so much. We have, typically, written questions that come in. I know that each of you have plenty to do. But, we are going to leave the record open until the close of business on Friday. And, to the extent you might answer those questions for us, we would greatly appreciate it.

Again, I cannot imagine a better panel, nor a better hearing. And that is only because of the outstanding witnesses we have. We thank you.

And, with that, the meeting is adjourned.
[Whereupon, at 4:15 p.m., the hearing was adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

RESPONSE OF HON. EARL ANTHONY WAYNE TO QUESTION SUBMITTED BY SENATOR BENJAMIN L. CARDIN

Viewpoints on exactly how NAFTA renegotiations should proceed differ widely. But, as was discussed in the hearing, there is general agreement that NAFTA must be modernized to reflect changes in the global economy and updated thinking on trade obligations. I think it is critically important to create a very high standard in the NAFTA negotiations that preserves and improves on the gains made on labor rights, environmental commitments, and anti-corruption standards since NAFTA was first negotiated. It's these provisions that help create a level economic playing field.

Question. Speaking from the U.S. perspective, do you agree? What advice would you have for negotiators with respect to these issues, especially on an updated labor chapter?

Answer. I am far from an expert on the three areas you mention: labor rights, environmental commitments and anti-corruption standards. I agree fully, however, that a modernized NAFTA agreement should incorporate state of the art provisions in new chapters on labor rights, the environment and anti-corruption efforts.

Strong provisions should be incorporated in the final agreement to help assure that all three parties respect principles and standards agreed in the three relevant chapters, but I am not optimistic that the parties will be able to agree to make the chapters as enforceable as some in the U.S. are seeking, especially for the labor provisions. Therefore, I think the U.S. should also strive to increase the transparency of the work done in these areas as a means of encouraging measurable implementation by all three parties.

It will be a challenge to transform the laudable objectives that will no doubt be in the new chapters on labor, the environment and anti-corruption into an agreement that strongly encourages better practices by all three parties, while respecting the sovereignty of each of them. One could easily imagine situations where each of the three countries would bridle at being criticized by one of the other countries for a domestic law or regulation that is seen to violate objectives in the treaty on labor, environment and anti-corruption, or for not implementing well existing laws or accepted norms as they apply to labor, the environment and anti-corruption. For example, I doubt it would be constructive or well received in the Unites States, if Canada or Mexico were to file NAFTA cases against the U.S. for failure to repeal or otherwise invalidate state "right-to-work" laws or for failing to sign and ratify six of the eight "fundamental" ILO conventions, including those that endorse freedom of association and collective bargaining. Similarly, both substantively and politically it would be problematic for the U.S. to file NAFTA dispute settlement cases regarding the fairness of Mexico's minimum wage rules. In addition, since all three of the governments are federal systems, one faces the division of federal vs state/provincial authority for implementing various treaty commitments.

As I understand it, the most up-to-date treaty texts in all three areas were what the U.S. was negotiating in the TPP, much of which may still be in the draft to be signed by the eleven remaining countries in March. (I note that the three NAFTA governments reportedly reached agreement on a new anti-corruption chapter in the last NAFTA negotiating round.) That said, the TPP labor text was not strong enough to win over most of U.S. organized labor. My understanding is that the EU, Japan and other major western trading powers have lagged behind the U.S. in terms negotiating constructive labor chapters in their trade agreements.

In the TPP talks when the U.S. was still participating, Mexico would not agree to a Mexico specific plan committing to certain implementation steps in the labor area as part of the TPP agreement. However, while the TPP talks were proceeding, Mexico introduced significant constitutional reforms on labor and union rights, which were approved by Mexico's Congress and states. If implemented well, these reforms would significantly advance labor rights in Mexico.

If we have an interest in improving labor practices in Mexico, the short-term task is to work to assure that Mexico's valuable constitutional changes are fully and effectively implemented. The AFL–CIO and a Mexican union recently jointly filed a complaint with the U.S. Department of Labor alleging that the bill introduced in the Mexican Senate to implement the constitutional reforms would, in fact, under-

mine those very reforms. The short-term priority would thus seem to be to assure that whatever Mexican legislation emerges fully and well implements the intent of the constitutional reforms relating to labor and union rights. Based on my experience, this work would best be pursued via non-public demarches to authorities and legislators in Mexico.

Regarding the current negotiations, I understand that USTR is preparing to table a draft proposal on labor at the next round of talks later in February. Canada has also talked about offering a forward leaning labor proposal that might challenge some U.S. "right to work" practices, according to press reports.

I understand that U.S. unions will be focused on how labor commitments will be implemented, monitored and enforced in Mexico to encourage a situation where wages rise with labor productivity. Moreover, U.S. unions are asking for steps to allow genuine, not company, unions in Mexico that can freely organize and bargain collectively on behalf of their members.

The U.S. can monitor implementation by having a robust labor section in the Embassy that travels and gathers information on prevailing labor practices and by periodic visits by officials from Washington. The enforcement part of any draft text will likely be contentious. I am not sure what might be possible or acceptable in this area.

One set of improvements in the labor chapter, however, might revolve around increasing the transparency of labor practices on the ground. This might be done through requiring more public filings by governments, the private sector and unions related to the practical application of the treaty commitments. The chapter might also incorporate a tripartite (government, employers, and unions) mechanism whereby any of the parties could publicly raise problems and complaints regarding implementation of commitments and/or objectives embodied in the treaty. This would follow the tripartite consultation model used by the International Labor Organization (ILO), albeit without ILO participation. Such a tripartite mechanism could enhance transparency of labor practices on the ground by way of public discussions.

The three countries could hold annual meetings where the governments, private sector organizations and unions would be able to raise publically concerns they have about implementation in any of the countries. Similar exchanges already take place annually in Geneva led by outside experts under the auspices of the ILO. All three NAFTA countries have ratified ILO Convention 144 on Tripartite Consultation for the Promotion of International Labor Standards, which would underpin the notion of tripartite review under such a NAFTA consultative body, giving both employer groups and labor unions more standing relative to their governments than they enjoy currently in NAFTA deliberations. The negotiators might also explore using independent investigators to prepare reports on complaints, as happens in the ILO.

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