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Winners and Losers on the NAFTA "Fast Track"

Introduction: The Rush to Judgment on NAFTA

History will record the almost-frenzied pace with which negotiators from Mexico, the United States and Canada proceeded to draft the North American Free Trade Agreement (NAFTA), a treaty that will drastically change the nature of economic relations among the three nations. Three nations with severe social and economic problems, declining competitiveness in the global economy and virtually no plans for remedying their domestic shortcomings have rushed to drop their borders. This act will, ironically, further reduce their ability to provide remedies to their current problems. It casts the three economies into the unpredictable winds of free trade precisely at a time when conservative policy would have dictated reforms and efforts to resolve major domestic crises.[1]

The most careful and articulate supporters of the proposed free trade agreement base their arguments on the abstract theories of international trade. If one ignores the "costs of adjustment," freer trade should, all other things being equal, raise the overall standard of living of each of the trading partners.[2] But formal international trade theory offers little insight into the theoretical distribution of either benefits or costs from freeing trade, especially for economies with marked income disparities, extensive unemployment, and profound social difficulties. And the deeper one looks into the probable

impact of the free trade agreement upon very large industries, major segments of the populations and whole regions of each, the greater the level of concern with the potential negative impacts.

How do these issues affect Mexico and the United States? Who is most likely to gain in each country? Who is most likely to lose? What significance will the magnitude of the disparities among the three partners have for the probable success of the endeavor? Are there comparable experiences from which to draw? If so, what do those experiences suggest?

The European Compensation and Adjustment Programs

The European experience with programs to generate support for potential economywide gains have seldom been discussed in the context of the NAFTA debate. Yet the size and scale of the European adjustment programs could be reasonable benchmarks for officials in the United States, Canada and Mexico promoting NAFTA.

The creation of the European Community has taken many years of lengthy negotiation. More importantly, it has been assisted by (and often conditioned upon) the creation of massive multinational compensation and adjustment funds designed to lessen the negative impacts on those regions, those industries and those workers most negatively effected.[3]

The European Community has consistently allocated sizable sums of community funds to programs designed to assist both regions and individuals who have been harmed by each successive stage of trade liberalization and each increase in the size of the common market. The two most important programs of this sort are the European Regional Development Fund (ERDF) and the European Social Fund (ESF). The total amount of funds allocated for this purpose exceeded $5.4 billion each year after 1986, and those amounts are

expected to double after 1992 when the internal markets are completely unified. The creation and expansion of the funds has been a direct and explicit part of the bargaining process between richer and poorer nations in the EC and among voters in richer and poorer regions or industries within individual countries. Yet nothing comparable is even contemplated within the NAFTA negotiations.

The ERDF was created specifically as a program to provide compensating subsidies to stimulate investment and the development of infrastructure in regions designated "EC problem areas." These are largely regions that have below-average wealth levels and above-average unemployment levels, especially those that have been affected negatively at each stage. These regional programs in recent years have been expanded to include aid to create agencies to compile and distribute information on product and process innovation, and direct support to companies to evaluate the technical feasibility and marketing prospects of new products and production processes.

From 1975 to 1984 the fund allocated an average of $1.7 billion each year to these activities, heavily favoring the three lowest-income nations among the 10 members of that time: Greece, Ireland and Italy. With the entry of Spain and Portugal in 1986, the magnitude of the ERDF was expanded to nearly $3.5 billion per year, with 66 percent of the funding mandated for the four Mediterranean countries (Greece, Italy, Spain and Portugal) which contained 36 percent of the population and produced only 22 percent of the combined gross domestic product (GDP).

The European Social Fund (ESF) was created even earlier (1958) and was designed explicitly to increase efficiency by retraining and assisting in the relocation of workers to take jobs in a new industry, "after having been made redundant in an old industry." Although funded at relatively low levels from 1958 to 1972, it grew rapidly as the size and industrial

diversity of the EC grew. By 1982 it amounted to $1.4 billion per year, with 50 percent allocated to regionally defined retraining programs and the rest to selected industries (such as textiles) and specific classes of workers (women, the young, migrants and the handicapped). With the accession of Spain and Portugal in 1986, the ESF grew to $2.5 billion per year, focused primarily on the education, training and initial hiring of young workers, with regional emphasis upon the more distressed regions of Europe.

Many observers have documented the significance of these programs in creating initial political support for more integrated markets. The need for them in the NAFTA environment has also been noted (and the lack of programs of this sort lamented) by pro-NAFTA authors such as Gary Clyde Hufbauer and Jeffrey J. Schott of the Institute for International Economics. They note, first, that U.S. expenditures on labor market adjustment programs are lower, and benefits provided are for shorter periods than in most other industrialized countries. In fact, they note, total U.S. expenditures on job training are less than one-half the level of Canada, Germany, England and France; and total labor market programs in the U.S. are at one-quarter of the average levels in those countries. Yet, they note, the retraining needed for the more than 100,000 U.S. workers that they (conservatively) expect will be displaced by NAFTA will require "at least $900 million" in additional funding. But the Bush administration has eliminated *all* funding from the 1993 fiscal year budget for the principal program that could be expanded to meet this need, the Trade Adjustment Assistance program, at the same time that it has pushed aggressively for NAFTA.

Canadian Experience with Free Trade: 1989–1991

The Canadian experience with the initial stages of the free trade process is distinctly sobering. On the eve of the passage of the U.S.-Canadian Free Trade Agreement (FTA), the Canadian economy was heading into the worst recession since

1982. The FTA could not have occurred at a less opportune time. One of the original architects of the U.S.-Canadian agreement has admitted that "a majority of Canadians (in 1992) believe that the FTA was a bad deal for Canada and many perceive it as a root cause of the country's economic problems."[4] Canada under the free trade agreement has been characterized, in general, by "slumping profits and record corporate and individual bankruptcies, persistent insupportable levels of government deficits, and continued double-digit rates of unemployment, with record losses of jobs in the manufacturing industries."

Both the magnitude and the rapidity with which the Canadian economy appears to have been affected by free trade with the United States provides further reason for concern. The traceable effects appear to cover three principal areas: loss of manufacturing jobs, unexpected damage to leading innovative services and other industries, and the cumulative impact upon Canadian labor negotiations or, more generally, upon the Canadian social compact.

The evidence with respect to manufacturing employment is dramatic. Canada lost *23.1 percent of all its manufacturing employment*, more than 460,000 jobs, during the first three years after the January 1, 1989, startup of free trade with the United States.[5] Canadian government data indicate that one-third of that loss occurred in 1989, before the recession began to be felt in both Canada and the United States. Sixty-five percent of those job losses come from permanent plant closings, three times the proportion from plant closings that was felt in the 1981-82 recession. Although there is some evidence that Canadian production costs were rising prior to 1989, the Canadian economy had been creating an average of 325,000 jobs, in all sectors, each year. Continuation of that rate would have generated more than a million new jobs from 1989 to 1991; in fact, Canada experienced a net *loss* of more than 100,000 jobs over that period, the first three years under the FTA.

Canadians are convinced that their economic downturn is directly related to the relocation of production to lower-cost sites in the United States, and they fear that the process will only be worsened as Mexican locations for unrestricted production become available to Canadian, U.S. and other investors. Interviews in the press with Canadian companies that have recently relocated to the United States because of lower wage rates and generous business incentives simply verify the mobility of Canadian capital in the face of substantially lower operating costs.

Canadian business concern is very high because it is not simply the peripheral manufacturing industries, susceptible to low-wage competition, that suffered. Some of Canada's most productive and most innovative industries have been seriously weakened by less-impeded import competition and by the movement of plants to lower-wage areas in the United States.[6] Canadian service sector firms that had supported the free trade pact as a way of gaining access to apparently unlimited U.S. markets are finding that the inrush of U.S. service providers is overwhelming them.

The political opposition in Canada, especially the New Democratic party, which won several provincial elections on the strength of anti-FTA platforms, is being pressured to call for canceling the FTA. The broader concerns that they raise include a growing recognition that the free trade agreement serves big business as a "lever" to reduce labor standards, environmental standards and guaranteed social services. Lowered corporate taxes would ultimately reduce public spending on social programs by forcing Canadian workers, unions and the national and provincial governments to "compete" with nonunion, low-tax states in the United States and, eventually, with conditions that prevail in Mexico. Bruce Campbell of the Canadian Centre for Policy Alternatives noted that to adjust to this new reality the local and provincial governments "must eliminate many

features that make the Canadian economy distinctive, and remove or weaken (in the name of competitiveness) the social services that give expression to values which have defined [Canada] as a more caring society."

There is a very real possibility that the negative economic consequences of the U.S.-Canadian recession of 1990–92 have become confused with the tangible consequences of the integration of the U.S. and Canadian economies. But popular opinion in Canada in 1992 appears to link the majority of the nation's economic difficulties to the free trade pact.[7] In the absence of credible evidence that separates the effects of the recession from the effects of the FTA, both Mexico and United States have reason for concern over the short- and medium-term consequences.

Winners and Losers on the Fast Track to NAFTA

It has not been popular, either in Washington or in Mexico City, to delve into the distributive implications of NAFTA. The International Trade Commission (ITC), in contracting for studies and in publicizing results, has emphasized economywide implications, playing down analyses of specific sectors, regions or classes of workers that might gain or lose. In Mexico, similarly, there has been little attempt to publicize even what is widely known about negative implications. A comprehensive review of the available literature, however, permits the preliminary summary of positive and negative effects, gains and losses.[8]

Winner: Multinational Businesses It is increasingly clear that the unambiguous winners in all three participating countries are also NAFTA's principal supporters: the multinational business communities (or those capable of becoming, or wishing to become, multinational). Gordon Ritchie, a Canadian ambassador to the trade negotiations, noted that despite the global economic difficulties of the Canadian economy, "Canadian business has generally been highly

supportive of the NAFTA on the grounds that considerable commercial benefits can be realized by Canadian firms." The few U.S. business groups that have raised concerns are those such as local fruit and vegetable producers who cannot effectively move their production to Mexico, and small business owners in sectors such as glass, where large U.S.-Mexican joint ventures threaten to dominate the industry. Mexican business sees NAFTA as an enormous opportunity, despite the concerns that many of the nation's previously heavily protected businesses will not weather the storm of increased competition.

Two USITC studies confirm the implications of liberalization for previously protected domestic industries when faced with increased competition dominated by multinational firms under NAFTA. In one case, much of the gain in efficiency for the combined region comes from the economies of scale embodied in a smaller number of firms, each producing at a larger scale. Another study, examining the motor vehicle industry, where many of the benefits accrue to multinational producers who ship components under free trade but restrict full competition, found that the benefits to consumers are limited and the disappearance of a large proportion of local (nonmultinational) producers is expected in theory and found in simulation results.

Winner: High-Tech Sectors in the United States There is virtual unanimity among the studies available to date to suggest that certain industries in the United States should benefit significantly. These are the industries that employ highly skilled workers, produce sophisticated products in short production runs and have major research and development components. The aircraft and aerospace industry, optical instruments, heavy transportation equipment and capital goods industries share these characteristics. They also extend to biotechnology, computer software (at most levels), and research and development phases of many industries.

The very earliest of the attempts to quantify and distribute gains and losses from the proposed trade agreement provided evidence to support this expectation. The U.S. Council of the Mexico-U.S. Business Committee hired the Peat-Marwick accounting firm to estimate global gains and losses and to distribute them across 44 sectors in both countries. The Peat-Marwick report indicated that the biggest winners in the United States would include the sectors noted above, plus finished autos and rubber, plastic and food products. The research staff of the Office of the Comptroller for the State of Texas — a group that, for obvious reasons, has been heavily focused on potential NAFTA impacts — also concluded that electronics, computers, industrial machinery and high-tech services would be among the sectors most benefited by NAFTA.

Winner: Labor-Intensive Manufacturing in Mexico The obvious comparative advantage of a very large country with ample supply of low-wage workers is in those industries for which labor-intensive processes are presently dominant. All available studies support the notion that the apparel and textile industries will be the biggest winner in this category. But there are also studies that suggest that manufacture of automobile components, electronic components, computer equipment and a wide range of appliances will also be a winner for Mexico.

Winners: Some Agricultural Sectors in the United States, Canada and Mexico Certain portions of U.S. and Canadian agricultural production are expected to benefit very greatly. The Great Plains producers of corn, grain sorghum and soybeans have historically been hindered in their access to Mexican markets by Mexican subsidies to local basic grains production. Nevertheless, exports of just those three products from the United States to Mexico accounted for fully 36 percent of all U.S. agricultural exports to Mexico in 1989, a total of nearly $3 billion. Elimination of Mexican subsidies and other tariff barriers is expected to expand these exports

greatly, for the price-competitiveness of U.S. and Canadian production is very high. Deciduous fruit producers also expect greatly expanded exports to Mexico.

The two most important agricultural winners in Mexico are expected to be the sugar industry and producers of fruits and vegetables. Although some had argued that there was more complementarity between U.S. and Mexican fruit and vegetable production, a General Accounting Office study confirmed that for some of the most important U.S. vegetable and fruit crops (e.g., tomatoes, cucumbers, bell peppers, melons and strawberries) direct competition was common and Mexican exports could be expected to expand under NAFTA. Tariffs on Mexican imports of these products are the highest agricultural tariffs in the United States, approaching 20 percent ad valorem, even though in some cases they are restricted to specific competing seasons. Nonetheless, there is substantial concern among producers in three key U.S. areas (California, Texas and Florida) that local production of these products will be severely impacted.

Sugar processing is expected to gain the greatest advantage in Mexico. U.S. sugar production has been highly subsidized and highly protected for more than a generation. Peat-Marwick predicts expansion of sugar production in Mexico by more than 32 percent, with U.S. production and employment declining more than in any other sector.

Likely Losers under NAFTA

It is not necessarily the case that winners will be matched directly and completely with losers in the other countries, because expansion in production for the rest of the world is also possible. Practically speaking, however, they will be. The single largest area of negative impact in both the United States and Mexico is likely to be rural. In Mexico this fact is based on the impact of NAFTA on subsistence production of basic grains. In the United States it is related to the concentra-

tion of low-wage, low-productivity jobs as nonfarm employment in rural America.

Loser: Mexican Basic Grain Producers World Bank researchers have drawn critical attention to the potential implications of NAFTA for rural Mexico and, in particular, to the vast population of small-scale basic grains producers. Mexican basic grains producers have benefited from import quotas that effectively raised their prices some 70 percent above prevailing world prices. Nevertheless, this has barely been adequate to sustain hundreds of thousands of farmers on the land. Elimination of that protection, the resulting massive imports of grains from the United States and the decline in Mexican prices for grains are expected to generate massive migration from rural to urban areas of Mexico and, according to some analysts, dramatic increases in migration from Mexico to the United States.[9]

Surprise Loser: Wages in Mexico There is widespread expectation that wage levels will rise in Mexico as a result of NAFTA. This would seem to be certain for some portions of the labor force, especially the better-educated or better-trained workers. But the magnitude of the increase in wages for the majority of Mexican workers (or even for urban workers overall), if any, will depend upon the impact of the full range of sectoral changes. Two studies provide evidence that net changes in Mexican urban wages may be negative, rather than positive. Both a Berkeley-based analysis and a World Bank study factor the impact upon basic grain production in Mexico under trade liberalization into the overall wage picture. Both studies, discussed in greater detail below under "losses" in Mexican agriculture, note that the dependence of a very large proportion of Mexico's rural labor force on the production of basic grains implies that rapidly falling prices under free trade in grains, as is expected, will generate very large flows out of Mexican rural areas into the cities. Falling wages, rather than rising wages, are a plausible result of their simulations.

Loser: Textile and Apparel Industries in the United States
The textile and apparel industries are two of the largest manufacturing industries in the United States. In 1989 the textile mill sector employed 726,100 workers and the apparel industry employed 1,091,500 workers. The industries are important sources of employment for women (who comprise 76 percent of the apparel work force and 46 percent of the textile work force) and minorities (Blacks: 25 percent in textiles, 15 percent in apparel; Hispanics: 4 percent in textiles, 21 percent in apparel). Overall, the two industries employ workers with below-average levels of educational qualifications than other sectors (39 percent of textile and 44 percent of apparel workers had not completed a high school education). This compares with 21 percent for manufacturing as a whole and 16 percent for all sectors.

The implementation of NAFTA, as presently anticipated, will introduce a profound change in the fundamental structure of the apparel and textile complex. The only detailed government-sponsored study of NAFTA impacts on the apparel industry is being produced by the Office of Technology Assessment at the direction of Congress. The study focuses on the competitive potential of the Mexican apparel and textile industry. The contracted author, Thomas Bailey of Columbia University's Teachers College, concludes that there will be little competitive threat presented by Mexico's apparel or textile industries. According to Bailey and others, both Mexican industries are inefficient and small in scale. As presently configured, the OTA study is largely correct. But the analysis is misdirected, for it does not take into account the strategy of U.S. firms planning to take advantage of the significant wage-cost differences (currently about 10-to-1) between Mexico and the United States among garment and textile workers.

There are three principle means by which NAFTA will influence domestic textile and apparel producers: elimination of the requirement to cut and finish material in the United States, creation of surplus capacity with the opening

of new facilities to service the Mexican market, and attraction of foreign producers to Canada and Mexico to gain access to the U.S. market.

Perhaps the biggest impact of NAFTA will be the disintegration of the textile-apparel complex in the United States. If Mexican firms are no longer restricted to assembly tasks in order to qualify for reduced tariff imports and are allowed to undertake all phases of apparel production and finishing operations in Mexico, such phases as cutting and finishing will follow apparel production southward. Large textile producers already acknowledge that with the passage of NAFTA, they will move pre- and postassembly operations to Mexico to be closer to their customers. Other firms indicate that NAFTA investment guarantees make larger capital investments in the more sophisticated ends of the industry, such as spinning and weaving, more attractive.

A secondary impact of NAFTA will arise as firms establish production operations in Mexico to serve the Mexican market. Given the substantial wage differences within the NAFTA region, U.S. firms will be forced to produce in Mexico in order to effectively compete for Mexican market share. As U.S. firms establish new capital-intensive facilities this will place cost pressures on existing domestic operations. According to corporate interviews, new facilities will be much larger than the traditional plants in the United States. At least one company official in a large apparel firm indicated that while in the past modernization was accomplished through growth, future planned investments in Mexico will generate surplus production capacity and lead to job loss in existing U.S. plants.

Finally, the passage of NAFTA will virtually force many Far Eastern producers to establish operations within the region. The largest foreign investors in Caribbean Basin countries are Korean textile and apparel firms. Foreign producers will be attracted to Mexico to gain access to the American and Mexi-

can market. Given the very low cost of Far Eastern textiles, firms are likely to set up assembly and finishing operations using cheap Mexican labor to assemble products manufactured with very low-cost Asian textiles. While foreign producers using cheap Asian textiles will still initially have to pay tariffs to import goods assembled of Asian fabric into the United States, the cost differential between U.S. and Chinese or Indian textiles far exceeds the potential impact of tariffs.

Textile and garment industry representatives suggest that NAFTA will lead to serious restructuring of their industries. Experts involved in the development of new technologies for both industries concede that NAFTA could result in a loss of half the total employment in the apparel industry in the first five years after NAFTA. U.S. textile industry representatives have also suggested that the Canadian apparel industry will be particularly hard hit given wage rate differences between Mexico and Canada. Textile company spokesmen suggest that the initial impact on textiles will be small, but over time there is likely to be a bandwagon effect as textile producers relocate en masse after apparel producers move to Mexico. Some textile firms with heavy investments in the United States fear competitors with low overhead will take advantage of opportunities presented under NAFTA and grab market share from the more vertically integrated firms.

Loser: Rural America Although the negotiating team for the United States in the NAFTA talks has included representatives of virtually every industry, with some environmentalists added late in the process, one can legitimately ask, "Who spoke for rural America in the negotiations?" Rural America may carry the principal burden of adjustment under NAFTA. Yet there are neither safeguards nor adequate remedies in place to protect rural communities from a potentially devastating impact.

Free trade with Mexico and Canada will probably mean increased exports of agricultural commodities, especially

basic grains. But agriculture today provides only a fraction, less than 10 percent, of all rural jobs. For decades, manufacturing firms have located new branch plants in places like rural Georgia and Texas. Plants producing textiles, auto parts and consumer electronics were moved to rural areas to take advantage of lower wages, less unionization, friendlier, tax-abating local governments and other contributions to lower costs. For many rural towns, a single branch plant provides a majority of jobs. Plant closures in such cases will destroy the livelihood of entire rural communities.

The decade of the 1980s left rural communities weakened. The 1982 recession accelerated their loss of college-educated people. Net out-migration of college graduates averaged two percent per year between 1986 and 1989. Department of Agriculture data show that the skill levels of new rural manufacturing jobs declined by 50 percent in key areas such as data handling, verbal aptitude and GED requirements. In addition, studies have shown that for rural areas, the historic link between education and employment and earnings growth has considerably eroded.

According to the USDA, rural America now has about 50 percent of the nation's low-skilled, low-wage manufacturing jobs. Only 59 percent of rural workers have finished high school, compared with 69 percent in urban areas. More worrisome, only 11.5 percent of today's rural workers in the U.S. have completed college, compared with 18 percent in urban areas. And disparities in levels of educational attainment between urban and rural areas, once converging, now appear to be widening, according to some measures. Thus, anticipated winners under NAFTA will primarily be urban workers with high levels of education and with positions in the nation's high-tech industries.

To illustrate likely impacts of NAFTA on the nation's rural communities we reviewed the geography of the apparel and textile industry. As we showed earlier, the industry is a

major employer of women and minorities and of workers with less than a high school education. Both industries decentralized out of the nation's industrial heartland starting at the beginning of this century. For many rural communities in the South the textile or apparel plant is the primary employer and it has been that way for decades. And while there is urban textile and apparel employment (concentrating in New York and Los Angeles), the bulk of employment in both industries is concentrated in rural areas of the Northeast and Southern Atlantic states. Thus any shifts in industry employment will dramatically impact rural areas in a region which has retained its early status as the nation's low-wage region.

Even the most efficient rural operations of multinational apparel producers, such as Levi Strauss, acknowledge that there is very little competitive basis for a national or a rural apparel industry in the face of NAFTA. Industry programs such as "quick response," designed to shorten the time between sales, production and stocking, were developed to counteract the cost advantages of Far Eastern production. By eliminating time in process and therefore decreasing losses associated with mis-specified stocking levels, firms are expected to experience a 25-percent increase in sales. But these programs can just as easily be operated out of Mexico. As one multinational apparel firm executive noted, "our recent investments in our Mexican and Caribbean operations include the most advanced technologies available. We are incorporating modular construction with quick-response capabilities. There is simply no other way to compete."

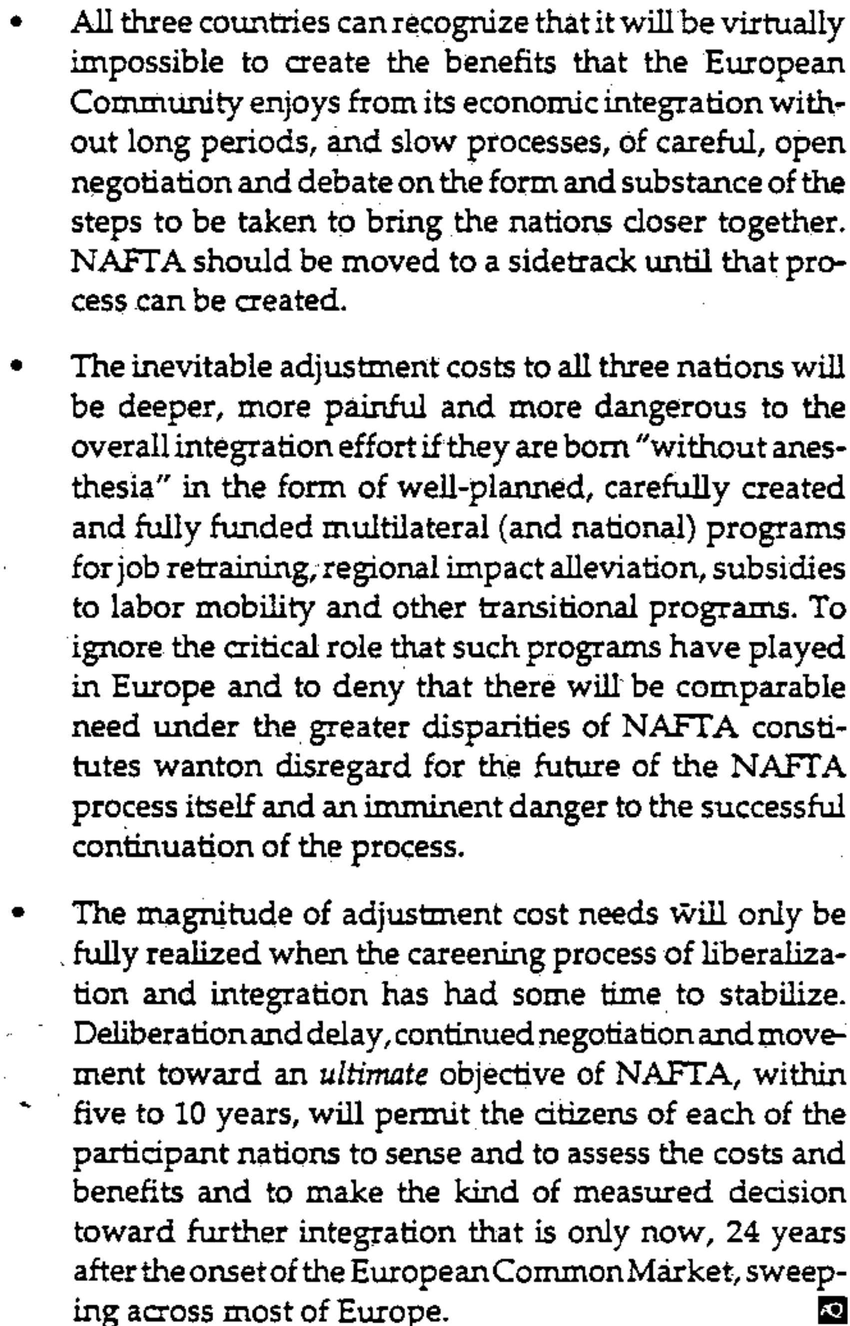
Rural communities with heavy concentrations of textile and apparel firms are only the most graphic example of likely losers with NAFTA. Other industries such as food processing, furniture, auto parts and consumer electronics are also largely rural industries that will experience the pressure of much lower Mexican wages. These industries came originally to rural America because wages were lower, regula-

tions less stringent and the cost of doing business less onerous. Now, like others before them, rural communities are being forced to compete with low-wage regions that far surpass the conditions that can be provided in the United States. Without adjustment policies, major areas and large proportions of the nation's workforce will find it very difficult to compete in an increasingly global economy. Without mitigation strategies, people will be forced to migrate to the cities or in some cases attempt to eke out a marginal existence in the nation's peripheral regions.

Alternatives to the NAFTA Fast Track

Trade liberalization between the United States, Canada and Mexico is both inevitable and inexorable. The theoretical benefits of economic integration are substantial. But what price are the three nations willing to pay for NAFTA on the 'fast track,' which virtually guarantees the elimination of the time needed to allow the adjustment process to catch up with economic trade theory?

Without tangible, concerted, *proactive* assistance, rural and less-skilled workers in the United States (and displaced workers in all three nations) will face great difficulty in making the transition to the new high-skill economy. President Bush promised to use the Trade Readjustment Act (TRA) and the Job Training Partnership Act (JTPA) as the bases for assistance to communities affected by the Free Trade Agreement (before proposing the elimination of TRA). But these are decidedly urban-oriented, short-term and *reactive* labor market programs. The TRA comes into play only *after* it can be demonstrated that a business has been harmed by unfair trade practices. The JTPA's dislocated worker program provides retraining assistance only *after* a plant's owners have made and announced the decision to close it. For what do we train the workers in rural communities whose only source of employment has been allowed to shut down?



If the NAFTA nations wish to create a long-lasting, ultimately harmonious and mutually beneficial improvement in trade and mutual development, there are several concrete steps that can be taken:

- All three countries can recognize that it will be virtually impossible to create the benefits that the European Community enjoys from its economic integration without long periods, and slow processes, of careful, open negotiation and debate on the form and substance of the steps to be taken to bring the nations closer together. NAFTA should be moved to a sidetrack until that process can be created.

- The inevitable adjustment costs to all three nations will be deeper, more painful and more dangerous to the overall integration effort if they are born "without anesthesia" in the form of well-planned, carefully created and fully funded multilateral (and national) programs for job retraining, regional impact alleviation, subsidies to labor mobility and other transitional programs. To ignore the critical role that such programs have played in Europe and to deny that there will be comparable need under the greater disparities of NAFTA constitutes wanton disregard for the future of the NAFTA process itself and an imminent danger to the successful continuation of the process.

- The magnitude of adjustment cost needs will only be fully realized when the careening process of liberalization and integration has had some time to stabilize. Deliberation and delay, continued negotiation and movement toward an *ultimate* objective of NAFTA, within five to 10 years, will permit the citizens of each of the participant nations to sense and to assess the costs and benefits and to make the kind of measured decision toward further integration that is only now, 24 years after the onset of the European Common Market, sweeping across most of Europe. AQ

Notes

1. For further discussion of the competitiveness issue and NAFTA, see M.E. Conroy, "Strategic Global Imperatives and the North American Free Trade Agreement," forthcoming in *The United States and Mexico: Economic Growth and Security in a Changing World Order*, Bruce Bagley and Sergio Aguayo eds., Miami: University of Miami Press, 1993.
2. One of the most comprehensive treatments may be found in Gary Clyde Hufbauer and Jeffrey J. Schott, *North American Free Trade: Issues and Recommendations*, Washington DC: Institute for International Economics, 1992.
3. It is to be expected that the structural changes produced by major changes in tariff and nontariff barriers to trade will create not only regions, but also industries, and segments of the population who benefit greatly; these are the "winners." But it is also to be expected that significant components of each participating nation will be harmed economically, and will see significant reduction in their wages, employment opportunities and general welfare. A large proportion of the technical studies conducted to date acknowledge this fact. For example, one group of authors at the U.S. International Trade Commission NAFTA modeling conference in February 1992, authors who strongly support the proposed free trade agreement and two of whom work for the International Trade Commission, note that results that claim economywide and global increases in efficiency from removal of import tariffs are, in fact, "dictated by theory." But trade policy, they note, responds much more directly to the "dramatic sectoral adjustments and tradeoffs" that generally take place when import protection is removed.
4. Gordon Ritchie, "Trade Tempered." *Hemisfile* 3 (July 1992) 4: p. 1. Ritchie, a Canadian ambassador to the trade negotiations, was one of the principal architects of the FTA between Canada and the United States.
5. Bruce Campbell, "Canada Under Siege: Three Years into the Free Trade Era." Report by the Canadian Centre for Policy Alternatives, January 1992, p. 1.
6. Canada's carpet manufacturing industry supplied 92 percent of the Canadian market in 1988; just three years after the onset of free trade that share had fallen to 64 percent, and employment in the industry had fallen by almost half, even though tariffs had only fallen from 20 percent to 16 percent in the five-year negotiated fadeout (Toronto, *The Globe and Mail*, November 26, 1991).
7. Canadians have also become greatly distressed with the attitude that the United States has taken with respect to disputes that have arisen under the FTA. According to Gordon Ritchie, a continuing supporter of the agreement, aggressive trade policy actions by the Bush administration have further undermined Canadian support for the pact. According to Ritchie: "The U.S. actions have included

continued breaches of the agreement (on plywood), capricious application of the rules of origin (on automotive products), excessive standards of inspection at the border (meat), customs harassment at the border (origin markings on printed products), and an extraordinary (and ultimately unsuccessful) challenge of an FTA panel decision on pork."

8. Most of the studies referred to have appeared in *Economy-wide Modeling of the Economic Implications of a FTA with Mexico and a NAFTA with Canada and Mexico.* USITC, May 1992.
9. Simple elimination of Mexican tariffs and subsidies to grain production may account for one-time shifts of from 500,000 to 700,000 workers from rural to urban areas, and declines in both rural land values and wages nationwide. More complicated scenarios, involving reciprocal elimination of U.S. protection on farm products from Mexico and massive reinvestment in Mexican agriculture, lessen these impacts. But there are no scenarios consistent with full and simple free trade that generate improvements in the standard of living of Mexico's poorest farmers.