

# Winners and losers: readjustment mechanisms in an NAFTA

**T**he Canadian, U.S. and Mexican co-conveners decided at the close of the December meeting of the North American Institute (NAMI) held in Santa Fe, New Mexico in December 1990, that the topic of the next meeting should be "Winners and Losers: Readjustment Mechanisms in a North American Free Trade Agreement."

The topic was particularly timely because there appears to be every likelihood that the United States and Mexico, joined perhaps by Canada, will soon complete a North American Free Trade Agreement.

As the time drew near for NAMI's scheduled meeting on "Readjustment Mechanisms", held in Monterrey, Mexico on the weekend of May 17-19, 1991, debate in Congress on "fast-track" authority grew more heated. Only last minute assurances from the White House that the interests of American workers would be protected and that environmental concerns would be adequately addressed during the free trade negotiations succeeded in overcoming a concerted drive by organized labor and environmentalists to deny the President the negotiating authority he required. Had Congress voted not to grant that negotiating authority, NAMI would have been discussing not the "Readjustment Mechanisms" but the short and long term

implications of the failure of free trade in North America.

The goal of the NAMI meeting in Monterrey was to consider the likely positive and negative effects of a North American Free Trade Agreement on the three countries of North America and to suggest some national or tri-national adjustment policies and mechanisms that might alleviate the more adverse consequences of such an agreement.

Forming the basis for the discussions were papers representing the views of several experts from the three countries. The papers maintained that the overall impact of a free trade agreement would be positive and that, while there were likely to be sectoral dislocations and adverse consequences, these would be limited and difficult to

distinguish from those caused by other factors.

Furthermore, new jobs would be created by a North American trade pact. This does not do away with the need for adjustment policies that would ease the transition to a freer trade environment and assure the political support required to secure legislative approval of a free trade agreement.

Economists and other experts underscored the importance of anticipating the adverse impacts of a free trade pact by, among other things, consulting with leaders from various economic sectors, and preparing policies to provide relief for injured parties. A Canadian speaker pointed out that all three countries of North America need to re-train and upgrade their labor forces. In a sense, he said,

*The North American Institute is a private, non-profit organization created to provide a tri-national forum in which the concept and realities of North American regional interdependence can be discussed on a continuing and sustained basis among private sector leaders in Canada, the United States, and Mexico.*

the entire industrialized world faces an enormous adjustment problem.

A Canadian government trade expert predicted that we would soon see more active government labor market policies. Taking a phrase from de Grandpré Commission, he said that these policies, rather than providing a safety net, would serve as a trampoline to launch dislocated workers back into the economy.

Adrian Lajous of Mexico expressed his concern that the title of the NAMI meeting suggested that adjustment policies would be an integral part of the U.S.-Mexico free trade talks. If this was true, it implied that injury to a particular economic sector because of freer trade would be grounds to reimpose protectionist measures. Readjustment mechanisms should not be part of the agreement because it would be impossible to know what injury was due to a free trade agreement and what was due to cyclical economic changes or simply bad management.

Several participants emphasized the need to recognize the political dimension of a free trade agreement. Failure to respond effectively to political opposition from constituencies that felt threatened by freer trade might doom the negotiating process or at the least cause short-term political problems.

What can be done about economic sectors that might be hurt by the FTA? One suggestion was the use of existing trade laws to ease the pain, or finding money for adjustment assistance and retraining of workers.

U.S. economists agreed that trade liberalization would bring general benefits to both the United States and Mexico but that economic models cannot capture all the important interactions that flow from freer trade. In Canada, changes attributable to the free trade agreement have been dwarfed by much larger changes resulting from monetary and fiscal policies.

The need for better policy coordination between the three countries was stressed as a way to avoid the shock from sudden policy shifts, as with interest rate changes. A free trade agreement between the United States and Mexico could be a stepping stone to a better North American environment, increased productivity and competitiveness in the United States, and more rapid growth and economic development in Mexico.

One American professor said, "Free trade and the symbolic commitment it represents on both sides to an open exchange of views and ideas, as well as goods, are too important an opportunity to squander in pursuit of the perfect multi-dimensional accord."

A recurring theme in the discussion was the need to view a North American free trade agreement as not an end in itself, but the beginning of a restructuring of the North American economic space. The central mission of NAMI is to explore policy devices for better management of the continent in all its relationships, and free trade is only one of these. Echoing this notion, the need was stressed for new international institutions to help the three countries cooperate more effectively in the management of scarce and fragile resources in their border regions.

It was pointed out that a mix of national objectives exist and that a North American Free Trade Agreement is not the end, but only the start, of a process. All three countries are adjusting and restructuring in response to new and global economic challenges. The consensus within the group was that adjustment policies need to stress retraining of workers rather than subsidies to the unemployed; in other words, a trampoline, rather than a safety net.

A tri-national mechanism was suggested, an advisory body to study

economic adjustment issues and other North American problems. The question of adjustments is more of a political question than an economic one, it was added, "a question of building on the sensitivities of our neighborhood, learning more about one another, and learning more about what we need to do for one another."

Three possible themes for future NAMI meetings were discussed. One would be the issue of competitiveness in terms of managing the environment; another would be the role of education in competitiveness; and a third would be the question of populations and population mobility. These topics are sensitive, both politically and culturally, but NAMI needs to address these kinds of questions and to develop new insights for managing the North American continent. Following the Monterrey meeting, the three national co-conveners approved a joint statement.

#### **NAMI Agreed Statement on Adjusting to Change**

At its meeting in Monterrey, Mexico, on May 17-19, 1991, the North American Institute (NAMI) proposed that Canada, the United States and Mexico establish a Tri-National Advisory Commission to facilitate the economic and social adjustments that will be required by a North American Free Trade Agreement.

The North American Institute is a private, non-profit organization created to provide a tri-national forum in which the concept and realities of North American regional interdependence can be discussed on an equal, continuing, and sustained basis among private sector leaders from Canada, the United States and Mexico. NAMI's mission is to examine all aspects to the emerging North American regional relationship and to develop better ways to manage this relationship.

As negotiations for a North American Free Trade Agreement continue, the issue of adjustments to ease the transition for workers and certain industries is seen somewhat differently in Canada, the United States, and Mexico. Concerns about adjustment, coupled with environmental standards, were raised forcefully in the United States during the congressional debates over granting the President fast track authority to negotiate a free trade pact. In Canada, overall support for a North American Free Trade Agreement is weak, whereas in Mexico high expectations have been raised. At its meeting in Monterrey, the North American Institute reached the following conclusions on adjustment:

1. We are neighbors facing a common challenge of competitiveness, with our collective eye on Europe and Japan. While there is a mix of national objectives, we share the goal of increasing savings and investment along with real wage growth.
2. A North American Free Trade Agreement is not a trade fortress among blocs, but serves as a regional halfway house looking toward further trade liberalization under the GATT.
3. A North American Free Trade Agreement is not an end in itself but plays a catalytic role, providing an opportunity to intensify a range of relationships in order to better manage the continent through sustained consultation and coordination. The symbolism of this is powerful and future-oriented.
4. We are in a dynamic situation, offering the possibility to create something new that will be more than the sum of its parts. There will be winners and losers in a North American Free Trade Agreement, but the overall benefits from expanding trade are compelling: this is not a zero sum game.
5. A North American Free Trade Agreement provides the context for much more systematic attention to managing change in our three countries, all of which are undergoing restructuring anyway. For Mexico it was the 1986 decision to join GATT and the wrenching developments that have subsequently taken place. For Canada, it was to accept the challenge of the U.S. market in order to transcend its traditional role as a resource economy. And for the United States, it was coming to grips with a reduced, if still powerful role in an increasingly competitive world.
6. There are four principal arenas for adjusting to change:
  - The North American Free Trade Agreement itself should provide for a long phasing-in period to protect hard-hit sectors and labor, principally by seeking to avoid sudden shocks, but in no way to build in protectionism.
  - All three countries should make a commitment to higher standards of environmental protection and wages; there must be no "leveling down" in a three-way trade agreement, although adjustment will take time.
  - The process of obtaining broad political support for a North American Free Trade Agreement from a public worried about change (the United States), skeptical of free trade (Canada), or underestimating the lead time to create benefits (Mexico), should emphasize the future. Adjustment, in the image of Canada's de Grandpré Royal Commission, should "not be a safety net, but a trampoline," which means retraining rather than short-term benefits.
7. The new regionalism is predicated on awareness of our continental neighborhood. We recognized that restructuring is going on in conjunction with the adjustment measures made necessary by, but also inspired by, the free trade agreement. All aspects of adjustment should be managed with a view to meeting our common challenge to be more competitive. NAMI therefore recommends the establishment of a Tri-National Advisory Commission on Adjustment. This commission will be in charge of enhancing the public debate as to the various ways in which trade and investment in our three countries can contribute to our total prosperity, and in which the process of adjustment can be advanced to gain higher labor standards, better environmental protection, education for enhanced competitiveness, and heightened productivity.
- Upgrading the quality of our workforce and management is an imperative shared by all three countries, because this is at the heart of increased competitiveness, which is the common goal and rationale for a North American Free Trade Agreement. Education is therefore the keystone of adjustment, and the commitment must be ongoing and permanent in Canada, the United States and Mexico.



Rodolfo Valiente/Cuartaescena

*It all depends on your point of view.*

**Conference participants**

**Jack Austin**, P.C., Q.C.  
(Co-convener), Ottawa.  
Senator

**Kenneth S. Courtis**, Tokyo.  
Vice President, Deutsche Bank  
Capital Markets

**David Crane**, Toronto.  
Business and economics editor for  
*The Toronto Star*

**Edward Daughney**, Vancouver.  
President, Merit Kitchens,  
Ltd./McDonald Supply

**Michael Hart**, Ottawa.  
Director of Trade and Economic  
Analysis

**Charles Kelly**, Ottawa.  
President of the Canadian Public  
Affairs Consulting Group

**Timothy Reid**, Toronto.  
President, Canadian Chamber of  
Commerce

**Andrew Saumier**, Montreal.  
Chairman, Saumier Frères, Conseil  
and Vice Chairman, Alpha Capital  
Inc. of Montreal

**Mitchell W. Sharp**, P.C., Ottawa.  
Policy Associate, Strategico

**Roberto Anderson**, (Co-convener)  
Roswell, New Mexico.  
President and CEO of Hondo Oil and  
Gas Company

**Richard Estrada**, Dallas, Texas.  
Editorial staff writer and columnist,  
*Dallas Morning News*

**Charles Miller**, Houston, Texas.  
President and CEO of Transamerica  
Criterion Group, Inc

**William F. Miller**, Stanford, California.  
Professor of Public and Private  
Management, Stanford University  
Graduate School of Business

**Don E. Newquist**, Washington, D.C..  
Member of the United States Trade  
Commission

**Charles W. Robinson**, Santa Fe,  
New Mexico.

Founding Chairman of the  
ASEAN-U.S. Business Council  
**Albert E. Utton**, Albuquerque,  
New Mexico.  
Chairman of the U.S.-Mexico  
Working Group on Shared Natural  
Resources

**John D. Wirth**, Stanford, California.  
Co-Founder and Vice President of  
*The North American Institute*

**Emilio Carrillo Gamboa**,  
(Co-convener), Mexico City.  
Chairman of the Board, Telindustria  
Ericsson

**Jorge G. Castañeda**, Mexico City.  
Professor of Political Science and  
International Relations, UNAM

**Eugenio Clariond**, Monterrey,  
Nuevo León.  
Chairman of the Board, Grupo IMSA

**Ramón De La Peña**, Monterrey,  
Nuevo León.  
Rector, Monterrey Campus of the  
*Instituto Tecnológico y de Estudios  
Superiores (ITESM)*

**Francisco J. Garza**, Monterrey,  
Nuevo León.  
Senior international business consultant  
**Adrian Lajous**, Mexico City.

Member of the Board of Directors of  
*Bancomer, Comermex and Confía*  
**Andrés Marcelo Sada**, Monterrey,  
Nuevo León.

Chairman of the Board, *CYDSA, S.A. de C.V*  
**Rafael Rangel-Sostmann**,

Monterrey, Nuevo León.  
President of the *ITESM System*  
**Jesús Reyes Heróles**, Mexico City.

Director General of *GEA Grupo de  
Economistas y Asociados*  
**Alonso Romo**, Monterrey,  
Nuevo León.

Chairman of the Board of *Grupo  
Pulsar*

**United States Presenters**

**Robert McCleery**,  
Research Associate East-West  
Center, University of Hawaii

**Robert Stern**,  
Professor of Economics and  
Public Policy, Institute of Public  
Policy Studies, University  
of Michigan

**Mexican Presenters**

**Adalberto García Rocha**,  
Chief of Economic Studies, Colegio  
de México

**Mario Rodríguez Montero**,  
Director of Investment Banking,  
*Grupo Pulsar*

**Victor Urquidi**,  
Former Director General Colegio  
de México

**Canadian Presenter**

**David Crane** M