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James R. Jones

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## AFTER NAFTA, LOOKING SOUTH

*Summary of Remarks by the Honorable James R. Jones, United States  
Ambassador to Mexico\**

The North American Free Trade Agreement “linked the economic future of the United States, Mexico, and Canada in the areas which interest us in this conference: trade, energy, labor and the environment,” James R. Jones began. And the fact that those three countries could agree to liberalize trade among themselves can be traced to a shift in East-West relations over the past decade, he contended.

As the nations of Eastern Europe realized that their centralized economic policies were no longer ideal, their very public rethinking of the virtue of a command-and-control economy affected economic views in other parts of the world. Mexico was among the countries that also began to doubt the value of having a centralized economy. The Mexican administrations of Presidents de la Madrid and, to a greater extent, Carlos Salinas de Gortari, moved their country away from statist, centralized economic policies in an attempt to transform Mexico into “truly a potential economic powerhouse.” The role of the private sector was increased; the role of the government reduced. The result was the opening of most of Mexico’s economy to the rest of the world.

The Mexican State has sold more than 1,000 businesses ranging from the national television network to a bicycle plant. More state-owned businesses will be privatized this year. All of the \$25 billion raised through these sales went toward debt reduction, internally and externally. The macroeconomic policies of the past six years have shrunk inflation from 150 percent a year to less than 8 percent this year. Next year, it is predicted to be around 5 percent. Mexico has turned a budget deficit that represented 15 percent of gross domestic product into a 1 percent surplus last year. This year, it will again have a balanced budget. Import licenses, previously needed for nearly every product, are now the exception rather than the rule. Tariffs have been cut from as high as 200 percent to an average of 20 percent over a six-year period. Under NAFTA, 43 percent of Mexico’s tariffs have been removed for American and Canadian goods, with the rest to be eliminated in the foreseeable future. “As a result of Mexico’s unilateral market-opening policies, two-way trade with Mexico has more than

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doubled since 1987," Jones said. "Mexico is now our third largest trading partner, behind Canada and Japan, and the second most important buyer of United States' manufactured goods."

Even more trade is expected under NAFTA, Jones asserted, thanks to an increasingly integrated North American market with a huge capital pool, high technology and 360 million consumers with the highest purchasing power of any place on earth. The sectors expected to benefit directly include communications, transportation, finance, consulting, and insurance. In particular, Jones said the reaction of the energy sector to NAFTA has been impressive. The governments of Mexico and the United States, in addition to the private sector, are also undertaking a variety of initiatives to improve energy opportunities across the board. The United States embassy is in constant contact with the Mexican government to help speed up the opening of Mexico's energy sector, which remains largely closed to direct foreign investment. Additionally, biannual meetings are aimed at discussing regulatory changes. There are also efforts underway to improve environmental conditions in Mexico.

The United States government is not approaching energy and the environment as two separate issues, according to Jones. Instead, through the Commerce Department, it is focusing on win-win links between environmental technology, energy, and international trade. "Our expertise in environmental technology creates a natural competitive edge for us in that market," Jones said. "Mexico has basically patterned all of its environmental laws on those passed in the United States," he said, so United States' firms have another built-in advantage in the environmental arena.

So, what are the opportunities for American business in the energy and environment sectors? First of all, the state-run oil company Petroleos Mexicanos (PEMEX) has placed a new emphasis on its environmental advisory group. This should lead to increased business opportunities for American environmental technology firms. Jones said he expects American exports to Mexico in this area could reach \$3 billion by 1995. Specific areas in which American technology will be welcomed include water treatment, fume containment, and waste oil disposal systems. It is possible, Jones continued, that success under NAFTA may lead to the complete opening of Mexico's energy sector.

Both PEMEX and Comision Federal de Electricidad, the state-owned electric utility, are undergoing corporate restructuring and increased private-sector participation. PEMEX has downsized nearly 50 percent in recent years, laying off around 100,000 workers. Because half of PEMEX's crude oil is used domestically, Jones said that it is important to maintain its exploration and production efforts in order to meet increasing internal demand. The need to maintain and actually increase deliverability from the nation's oil fields is leading to a climate in which foreign participation in energy joint ventures is being viewed as benign and perhaps even necessary.

Mexico is rich in natural gas, but PEMEX currently imports gas from the United States. Part of the problem is that Mexico's pipeline system sorely needs updating, and some of the more promising gas discoveries are not yet connected to the national pipeline grid. Until that happens, Mexico will likely continue to import United States' gas.

While NAFTA does not end PEMEX's constitutional monopoly in petroleum exploration, production, and refining, it does increase foreign access to petrochemical, gas, and energy services and to equipment markets. NAFTA also opens up Mexico's federal bidding system to participation by other North American companies under a ten-year phase-in. United States firms will also get a shot at joint-venture participation in newly authorized private-sector electric generation plants.

"Our embassy is watching all of these developments very closely so that we can work with United States firms, arm them with the right information, and take advantage of the new opportunities," Jones said. "What is happening in Mexico because of NAFTA is truly revolutionary."

The dimensions of reform go beyond the economic to the political, extending past Mexico to the rest of Latin America and even the rest of the developing world. Jones asserted that the United States will be viewed by the developing world in the context of its NAFTA relationship with Mexico. Because of this, the United States embassy in Mexico, which is the largest in the world, is taking a new approach toward working directly with the private sector. The embassy's top priority is to advance United States business interests in Mexico. The theory behind this new slant is that if there are enough business ventures with interests in each of the two countries, bilateral engagement is more likely to result in resolution of problems and achievement of mutual goals. Some problems that need addressing are drug trafficking, immigration, and environmental issues.

So far, 42 market sectors, accounting for 85 percent of Mexican economic growth over the next year, have been targeted for investment by United States companies. Basic market surveys have been done for all of these sectors and are available to firms wanting to do business in Mexico. The embassy will also conduct more specific surveys and accompany firms when they make presentations as a means of emphasizing United States government support. Also, the embassy is creating a data bank to allow for reliability checks when United States firms are seeking partnerships in Mexico. "If we can make this commercial relationship work, we can then cement and improve this new relationship between our two countries," Jones said. "And if we do that, I think it's going to open some major new vistas — economically, politically and in foreign policy — for the United States throughout the rest of the world."

### QUESTIONS AND ANSWERS

**Q:** I think a number of people are concerned about the other side of this issue as it affects the Mexican public, particularly the peasants. This is undoubtedly going to be rather disruptive in the short term. I think you've had some political upheavals already in south Mexico, perhaps symptomatic of the thesis that the benefits haven't yet been coming down to the majority of the poor Mexican people. Could you address that?

**A:** I think you make some very good points that the present leadership of the Mexican government certainly seems to recognize and appreciate, at least

in the conversations I've had with them. They have two major sectors that they're worried about. First is the agricultural sector. One fourth of the Mexican population is working in some way in agriculture and agricultural communities. And yet the agricultural sector accounts for only about 7 percent of gross domestic product. So you can see there are terrible inefficiencies there. Mexico recognizes that there will be many displacements in the agricultural field. The first step was to wean farmers off the price support program, which basically paid them to produce products, mostly corn, and provided such a subsidy that there was no incentive to improve efficiency. There are also some incentives to get more workers off of farms, but they're trying to do it in a way that cushions the impact until the workers can get another line of work and new training. The second thing that they are doing is increasing expenditures on education and training programs.

About 98 percent of Mexican businesses are in the small-business arena, not the kind of companies that can be expected to compete effectively in global markets. Still, we think there are some great opportunities for these businesses in the United States, and one of the things I've started at the embassy is to get the various associations that represent these economic sectors together to start having joint meetings in Mexico and the United States. The government is also putting a lot of money into various types of research and disseminating it to these businesses.

Now, the other thing they worry about is the great disparity between the rich and the poor and the need to rebuild the middle class. I would expect that the next administration, the next president that takes office in December, will slightly alter the economic reforms of the Salinas government, directing more funding into social development, education and financing. These things will lead to a bigger middle class.

- Q: What are the quantities of natural gas that are going to Mexico? Also, what are the reserves of natural gas down there? Might in 10 or 12 years the pipelines be used to bring gas back the other way? The other question is, do you see PEMEX or the electric company being privatized any time soon?
- A: As far as the quantities coming from the United States to Mexico, I can't give you that specifically. It is increasing very dramatically. As far as the pipelines shipping it the other way, I imagine that as this commercial relationship becomes more integrated that you're going to see it shipped both ways. Where there is a shortage or need based on market conditions, gas will move north or south, depending on the situation. I think the same is going to happen in electricity. As far as privatization for PEMEX and CFE, there is a lot of speculation on that, but nothing official. However, in Mexico, whether you're on the left or the right of the political spectrum, the commitment to a market economy is deep-rooted and, I think, irreversible.

**Q:** How does Oklahoma stack up compared to other states in their efforts on developing trade with Mexico?

**A:** Obviously, Texas has an advantage in a number of respects. One, it has the natural advantage of being a border state with a long experience of doing business back and forth with Mexico. And it was very supportive of NAFTA from the beginning. After Texas, I think Oklahoma has as many natural advantages for doing business in Mexico as any state in the nation, both in proximity as well as from the standpoint of the kinds of products that Mexico is interested in buying now. We have a very good track record in companies with energy and environmental products. They're very interested in aviation, the aeronautics business. I think we have a lot of products and services that Mexico wants to buy. We just have to go there as good business people and mind those markets well.

**Q:** What about the problem of small and mid-sized Mexican businesses defaulting on their loans?

**A:** Mexico recognizes there is a need for more private financial institutions. One of their plans is to expand rather rapidly to allow foreign banks, both commercial and investment banks, to come into Mexico. They're particularly interested in those that want to fill market niches. For example, the entrepreneurial sector is undeserved in terms of financing. I think they're going to give special attention to those sorts of market niches. What they're trying to do is to create competition. The more competition they have in the financial services industry, the lower the cost of capital becomes. They're going to move ahead rather briskly there, and I think you're going to start seeing more capital available to more parts of that economy.

**Q:** What's in place now for all these new ventures to keep Mexico's environmental problems from getting a lot worse?

**A:** First of all, to absolutely clean up some of their environmental problems, which are mostly concentrated along the border and in Mexico City, they're attacking that rather briskly right now. They're making some hard decisions. They closed down the largest refinery and put 6,000 people out of work in Mexico City because of pollution. They have done a fairly decent job of cleaning up some of the particulates in Mexico City's air. Along the border, there are some projects that are currently under way. For example, they are cleaning up the Tijuana River and the sewerage [sic] systems, which have been a problem both for Tijuana and San Diego. They have actually put quite a bit of money, considering their total budget, into environmental clean-up now. Mostly, they have a full commitment to continuing that. What we're waiting on right now to accelerate it is the financing for the Border Environmental Commission that was established under NAFTA. I believe it is going to have \$400 or \$600 million as its initial capital to accelerate the clean-up.

- Q: Could you address some of the impacts on labor in the United States as a result of NAFTA?
- A: I personally believe that the next couple of years — perhaps even this next year — you're going to see a net increase of jobs in the United States on the order of 200,000 to 300,000 positions. So I can't buy the argument that labor is going to absorb all of the pain. What I hope will happen — and I know this was a very divisive issue for organized labor - is that labor will reach out to Mexico, because I think that the Mexican labor movement would welcome a gesture of support and of enhancing their ability to bargain and improve their own productivity. As far as jobs are concerned, I expect in the automobile industry, for example, as many as 50,000 new jobs this year because of the increased trade. You're going to go from about 3,000 to 4,000 units being exported to Mexico this year to about 60,000 units in just one year's time. Those are significant numbers, and they're going to increase job opportunities in this country.
- Q: What about other free trade agreements that Mexico has in the works with other Latin American countries, and how will they affect NAFTA? Will they result in products entering the United States duty-free?
- A: First of all, I think the rules of origin are pretty tight and the inspection is such that we know where products are coming from. If they violate the percentage of content of a product that has to be produced in the three NAFTA countries, I think we have a pretty good system in place to catch those kinds of attempts. I'm not really worried about that. As far as other free trade agreements, I think they only impact NAFTA positively for two reasons. First, it is a commitment by these other countries in Latin America that they're going to have to impose in their own systems true market economies. The more we get a free market economy spread throughout the hemisphere, the better it is for us. I do expect NAFTA will be expanded. Chile will probably be the next entrant. Argentina is doing a fabulous job of putting in place a market economy; I think it would be next in line after Chile. Hopefully, what NAFTA will lead to is a new round of global trade negotiations which will this time truly lower trade barriers. I think if that happens it's an environment where the United States knows how to operate and compete, and I think it's good for the world.