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Testimony of Ambassador Carla A. Hills, United States Trade Representative, before the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, June 14, 1990.

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ARTICLES

TESTIMONY OF AMBASSADOR CARLA A. HILLS, UNITED STATES TRADE REPRESENTATIVE, BEFORE THE SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, JUNE 14, 1990

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you today to discuss U.S.-Mexican trade relations. At no time in recent memory have our trade relations been as harmonious as they are today.

This hearing is being held at a propitious moment. Three days ago, Presidents Bush and Salinas met and endorsed the goal of a comprehensive bilateral free trade agreement between the United States and Mexico and directed that we start the preliminary work necessary to begin those negotiations.

When Presidents Bush and Salinas took office 18 months ago, who would have imagined that U.S.-Mexican trade relations would have come so far so fast. While many eyes have been focussed on Eastern Europe, unprecedented changes have been taking place in our southern neighbor, as well.

Today, I would like to review the dramatic transformation in Mexican policies, explain what we have been doing with Mexico to date, and look beyond the horizon to the possibilities opened by the announcement of Presidents Bush and Salinas.

Mexican Trade and Investment Reforms

Mexico is America's third single largest trading partner, and we account for over two-thirds of its total trade. In 1989, two-way trade exceeded $52 billion. We exported $25 billion to Mexico and imported $27.2 billion from it.

While Mexico is a key U.S. trading partner, for many years we had basic disagreements over trade policy. We saw a Mexico whose policies were highly interventionist, characterized by trade protection, a restrictive investment environment, a large degree of state ownership and control of business, and an overly regulated business climate.

In the mid-1980s, however, the first signs of change began to appear. Former President de la Madrid began this process and took the major step of Mexican accession to the GATT in 1986.

But it is since the Salinas Administration took office in 1988 that we have seen a sea change in Mexico's policies. President Salinas has taken a restrictive trade and investment regime and moved it toward becoming one of the most open among developing countries. In most cases, Mexico has acted unilaterally to open itself, often going beyond its formal GATT requirements. Let me give you a few examples.

- Mexico has cut its top tariff to 20 percent, far below the 50 percent level bound when Mexico joined the GATT. The average trade-weighted tariff has fallen from over 25 percent in the mid-1980s to about 9 percent today. In comparison, U.S. tariffs average about 4.2 percent.
- Import licenses, which in 1983 controlled *all* Mexican imports, have been slashed. They now cover only 250 items, or roughly seven percent of the value of U.S. exports to Mexico.
- In May 1989, the Salinas Administration issued new regulations that went a long way toward reforming Mexico's investment rules. Those regulations began the process of opening doors for U.S. and other foreign investors, doors that have been shut for far too long.
- Mexico is in the midst of a major effort to strengthen its protection of intellectual property rights. It has committed to lengthening the patent term to 20 years, extending coverage to such areas as pharmaceuticals and chemicals, and improving protection for trademarks and trade secrets. As a result, in January, Mexico was removed from the special 301 "priority watch list."
- The role of government as an owner/operator of business is being drastically reduced. Of the 1155 enterprises owned by the state in 1982, 801 have been authorized for divestment and 619 have actually been privatized. Major examples include the recently announced decision to privatize the banking system; the sale of Aeromexico and Mexicana airlines; the planned divestiture, with sale of shares to foreigners, of Telmex, the national telecommuni-

cations company; and sales in areas such as automobiles, food processing, steel and cement.

U.S. Policy Toward Mexico

While the impetus for reform has been in Mexico, the United States has not sat idly by. We have encouraged and supported Mexico in its process of reform.

- We concluded the "Framework of Principles and Procedures for Consultation Regarding Trade and Investment Relations" in 1987. The "Framework Agreement" established a consultative mechanism to discuss trade issues and resolve trade differences. Under the Framework Agreement, the United States and Mexico have established 10 working groups in five areas: agriculture, investment and intellectual property rights, services, tariffs and industry.
- In October 1989, Presidents Bush and Salinas signed the "Understanding . . . Regarding Trade and Investment Facilitation Talks" (TIFTs). The TIFTs process builds on the 1987 Framework Agreement and establishes a mechanism for possible negotiations on specific issues or sectors. This March, we agreed that "petrochemicals" and "standards, testing and certification" would be the first areas for negotiation under TIFTs. No negotiations have yet been held due to scheduling difficulties with the Mexicans.
- Last September, we renewed the steel VRA and reached a bilateral consensus agreement under which subsidies and nontariff trade barriers to steel would be prohibited. Both countries agreed to work together in the Uruguay Round to incorporate the provisions of the bilateral accord into a multilateral agreement and to press for the reduction and elimination of steel tariffs.
- In February, we signed a textile and apparel trade agreement which eliminated quotas on over half of Mexican-made textiles, boosted most of its other quotas by a quarter and expanded the scope of mutually beneficial outward processing trade.
- In April, we granted Mexico $2 billion in benefits under the annual review of the Generalized System of Preferences (GSP) program. GSP gives certain developing countries duty-free access to the U.S. market for specified products. Mexico was the major beneficiary from the annual review, and our decision took into

account the impressive changes in Mexico's trade practices in recent years.

- In 1989, Mexico was the first country to reach a new debt accord under the Brady Plan. That agreement, which covers over half of Mexico's total external debt, provides substantial debt and debt service relief. The new debt package has bolstered investor confidence in Mexico and has placed Mexico on a firm footing for future growth.

Outstanding Issues

Mexico has shown commendable daring in creating a more open, outward-looking economy. However, there still are important areas where liberalization could proceed further.

- We would like to see additional steps to eliminate or reduce tariff and nontariff trade barriers. In agriculture, for example, import licenses still restrict about 59 percent of the value of U.S. agricultural exports to Mexico. Licenses are granted or withheld in an arbitrary manner and often act as import bans. Commodities affected by licenses include oilseeds, grains, dairy products and certain fruits and vegetables, such as apples. We are working vigorously to see that unjustified licensing requirements are eliminated as required when Mexico joined the GATT.
- Investors believe more could be done to liberalize investment. First, the new regulations are administrative acts only; Mexico should consider amending the national investment law. In key industries, such as petroleum and financial services, ownership is reserved by the Constitution specifically or by statute to the State or Mexican nationals, or foreign investors are limited to a minority interest. Real estate investment is restricted in some areas.
- In services, we look for additional openings in many areas, including banking, securities, insurance and transportation. In these areas in particular, market entry is restricted, and in some sectors U.S. firms are denied access to the Mexican market.
- Many of Mexico's reforms have been through executive decree. There is much concern in the business community that such decrees could be easily reversed in the future.
- While Mexico has pledged to change its patent and copyright laws to improve protection for intellectual property rights, we want to see those pledges carried out, to provide effective en-

forcement of intellectual property rights and immediate commercial benefits to intellectual property rights holders.

Many of these areas are being addressed, in whole or in part, in the Uruguay Round. Mexico has played an active and constructive role in most areas of the negotiations, working to bridge the differences that sometime exist between developed and developing countries.

The Future of U.S.-Mexican Trade Relations

This past Monday, Presidents Bush and Salinas made their historic statement on a bilateral free trade agreement (FTA). They made their pronouncement in the firm belief that an FTA will create a stable, prosperous economic environment, laying the foundation for a vigorous trade and investment partnership for the 21st century.

In our view, the possible gains to the United States include better access to a growing market for our goods and services producers as well as our investors, and a greater variety of goods on the market shelf at lower prices for our consumers.

- Greater access to the Mexican market could benefit capital goods manufacturers in Illinois, furniture makers in North Carolina, grain growers in Kansas, and forest products companies in Washington and Oregon.
- The potential for greater security of investment and expanded investment opportunities could be attractive to industries such as telecommunications, chemicals and transportation equipment. We already have over $5.5 billion in direct investment in Mexico, over 62 percent of all foreign direct investment there.
- Providers of services such as trucking, insurance, banking and securities, whether located along the border or elsewhere in the United States, might gain access to a market now closed to them.

These are some of the areas where we might gain and would certainly explore in any FTA. In addition, we see a free trade agreement as a strong reinforcement for the free market reforms Mexico has already made and a catalyst for future reform.

We will examine all aspects of the issues involved in any agreement in the coming months. In their statement, Presidents Bush and Salinas charged me and my counterpart, Dr. Jaime Serra Puche, the Mexican Secretary of Commerce and Industrial Development, to begin the domestic consultations and preparatory work needed to initiate such negotiations. We are to report back to them as soon as we practicably can, but in any event before their meeting this coming December in Monterrey.

As part of this process, we will seek your views as well as those of other members of Congress. I look forward to receiving your guidance on this venture and promise to listen closely to you. As with any potential trade agreement, we want a partnership with Congress.

We will also seek the views of our private sector advisors and others with an interest in any such agreement. We will use these consultations to have a full airing of the issues involved before embarking on negotiations for a free trade agreement with Mexico.

The Uruguay Round

Finally, I want to assure you that our actions as we explore an FTA will be fully consistent with and supportive of the Uruguay Round. The Round has been and remains the highest U.S. trade priority.

As Presidents Bush and Salinas noted, no single trade action will give both countries the range and variety of benefits achievable from the Round. Both the United States and Mexico are committed to working toward a successful conclusion of the Round by this December.

Conclusion

Clearly, we have much work ahead of us. We are at the start of what should prove to be an historic journey. I look forward to making it with you.