Daily Breeze

SUNDAY
October 25, 1992

Business

Free trade: Who wins?

Consumers may come out ahead, experts say

By Laurel Kenner
STAFF WRITER

In Santa Monica, the president of an environmental clean-up company expects the North American Free Trade Agreement would allow him to do business in Mexico with the assurance that his expensive equipment would not be seized by the government.

In Torrance, an apparel maker who at first feared her competitors would build plants south of the border is considering Mexico as a new export market.

In the Los Angeles garment district, apparel and textile manufacturers are calculating what a border without tariffs will mean for their operating margins.

The North American Free Trade Agreement between the United States, Canada and Mexico would create the world's largest trading zone, with 360 million people. Throughout Los Angeles County, people are trying to call the winners and losers.

"We already know who's going to win, and that's the consumer. The consumer in both countries will have access to better quality and lower prices," said Carlos Valderrama, director of California's Office of Export Development in Long Beach.

Negotiators completed a draft of the agreement in August. It is now being fine-tuned by lawyers from each country. If approved by Congress, which is expected to take up the issue next year, the agreement could take effect as early as Jan. 1, 1994, causing broad changes in the U.S. and Mexican labor markets as tariffs come down over 15 years.

Inevitably, more manufacturers will move south to take advantage of Mexican wages that average one-tenth of U.S. pay. Economists, however, say that in the end, all countries will gain because of the economic theory of comparative advantage.

The theory holds that everything will be more plentiful if countries concentrate on what they make more efficiently than other countries, or at least do what they do best.

Export predictions higher

Gary Hufbauer, a visiting fellow with the Institute for International Economics, predicts U.S. exports will be $17 billion higher than before NAFTA, while Mexican exports will be $9 billion higher.

"Pretty good for government work," Hufbauer said.

Hufbauer and others estimate that U.S. job gains in the "knowledge" and export sectors would more than offset losses in other areas.

For its part, Mexico is expected to gain more than 600,000 jobs.

NAFTA would immediately eliminate tariffs on thousands of goods crossing the U.S.-Mexican border. To protect U.S. workers, duties on automobiles, textiles and agricultural products would be phased out over 15 years.

Financial markets, allowing American bankers to make loans and take deposits in pesos, among other things, also will be impacted. Panels would be set up to resolve trade and environmental disputes.

Until the final details of the agreement are settled, it will be difficult to

TRADE/BACK PAGE

Trade

FROM PAGE B2

precisely pick Los Angeles County's winners and losers. County business officials believe a broad range of companies will benefit — particularly small- and medium-sized exporters of goods and services.

The reason: For about half a century, Mexico kept its borders closed to force its own industries to grow. The policy resulted in Mexican consumers being held captive to inferior, expensive goods under the collusion of government officials and business.

Now, with foreign trade and investment welcomed by Mexican President Carlos Salinas de Gortari, demand for American products will be increasingly unhindered.

"Because the Los Angeles industrial base is so diversified, within each industry you would find some gainers," said Gladys Moreau, director of the Export Small Business Development Center in Los Angeles.

Companies staying put

Despite such optimistic predictions, Los Angeles County business owners are not rushing into Mexico. "People are concerned about spending any money on anything at this point," said Jerry Slaby of Baker & McKenzie, a large international business law firm.

Mexico's past expropriations of foreign equipment also is holding some companies back. For example, Bill Reese says his Santa Monica environmental firm, Clean-Up Technology Inc., has many U.S. clients who do business in Mexico who could use his services there.

But Reese, a former oil man who remembers [illegible] U.S. oil companies were s[illegible]g by Mexico's nationalization of their operations in the '70s, has been reluctant to venture south of the border without strong protections. "I won't even make that foray until after NAFTA's signed," he said.

For some companies, NAFTA would bring a clear and immediate benefit. U.S. Customs now exacts a 12 percent tariff for Mattel's "Little Miss Magic Jewels" doll to cross the border from her factory in Tijuana to the United States. That would be eliminated as soon as NAFTA takes effect, said spokeswoman Donna Gibbs.

Mattel makes most of its toys in Asia, but uses its two plants in Tijuana and Monterrey to produce large dolls and accessories too costly to ship from Asia, such as tracks for Hot Wheels cars and Barbie houses.

NAFTA also would allow El Segundo-based Mattel to expand exports to the Mexican market, where 40 percent of the population is under the age of 15. Maquiladora plants are now allowed to sell 33 percent of their products to the Mexican markets. That would gradually increase under NAFTA.

"NAFTA would provide additional advantage in what is already a region of rich opportunity for us," Gibbs said.

NAFTA could change the equation between Asian and Mexican labor. To qualify for preferential tariff treatment, Asian companies who now send work to the Republic of China may find it better to build manufacturing plants in Mexico, with their North American headquarters in Los Angeles, said international trade attorney Thomas Chan.

In the U.S. labor movement, the agreement remains controversial. A rally against it in San Diego on Thursday drew at least 400 people, with the sponsors' estimate at 1,500.

Sponsored by a labor-environmental coalition called the Economic Earthquake Express, the rally marked the climax of a six-week tour through California by a caravan of trucks and mobile homes to draw attention to potential job losses.

The estimate used by the Bush administration — 150,000 jobs lost, 325,000 jobs created — is based on research done by the Institute for International Economics.

Union losses

Unions, however, say U.S. job losses could reach 500,000.

"Once the Free Trade Agreement was signed with Canada, they lost 300,000 to 500,000 jobs," said Ernesto Madrano, an organizer with the International Association of Machinists in Los Angeles.

Canadian officials acknowledge that plants closed after the Free Trade Agreement was signed, but blame the recession. In addition, many of the factories had been set up specifically to avoid tariffs and served no rational purpose when duties were eliminated, said John M. Curtis, a senior Canadian trade official.

In Los Angeles County, where one-fifth of the industrial base has been lost over the last few years, NAFTA's impact on manufacturing jobs likely will be anticlimactic.

"Most of the restructuring across the border has already occurred," said Mike Davis, author of a social history of Los Angeles, *City of Quartz*, and an expert on the county's industrial base.

"I don't think that the scare scenario that we would immediately hemorrhage jobs is true." When the recession ends, however, more polluting industries are likely to head south, he said.

Nationally, concern over possible job losses grows as the U.S. economy continues to stagnate. Independent presidential candidate Ross Perot opposes NAFTA on the grounds that it would hurt U.S. workers. President Bush and Gov. Bill Clinton support it, although both say billions of dollars are needed to retrain displaced U.S. workers and improve environmental conditions along the border. Despite the fears over job losses, Clinton's qualified endorsement has created a sense of fatalism in the labor movement.

'No political clout'

"We oppose it, but we have absolutely no political clout to do anything about it," one union organizer said.

For Jeff Stansbury, a veteran labor official in the auto, garment and hotel industries, the arguments against NAFTA go beyond the impact on U.S. jobs.

Free trade conditions have existed since 1965 in the maquiladora plants where Mexican workers assemble parts for U.S. and Asian companies, and have resulted in an unhealthy pattern of continued impoverishment for Mexican workers and underdevelopment for Mexican industry, he said.

Mexican labor unions have agreed with the government to keep wages low, and independent organizing is repressed by the police, Stansbury said.

Although Mexican President Salinas has promised that NAFTA eventually will slow illegal immigration to the United States, many observers say that the agreement could have the opposite effect in the short term as Mexico's small corn farmers and retailers lose out in competition with giant U.S. businesses.

"The irony is that the agreement will in some ways cause greater dislocation in Mexico than in the United States," said Peter Olney, an organizer for the labor organization Fair Trade and Economic Justice, a coalition of environmental, labor and Latino community organizations opposed to NAFTA.

Many observers see NAFTA as almost irrelevant to the trend of more open economic relations between the United States, Canada and Mexico.

"If it is not signed, the pattern will continue anyway. It's a pattern of economic integration, begun decades ago," Jorge Bustamente, president of El Colegio de la Frontera Norte in Tijuana, said last month in a speech to journalists at a conference on NAFTA sponsored by the Foundation for American Communications in Long Beach.

Revising expectations

As details of the agreement become known, some people are revising their expectations about free trade.

Yvonne Cucci believes NAFTA will help open a new market for her company's embroidered and hand-painted T-shirts, which are sold as souvenirs in exotic tourist destinations.

"At first I didn't think it was good. I thought it would ruin my business," said Cucci, whose South Bay Screen Printing Inc. employs 40 people in Torrance.

After reading articles about NAFTA, however, Cucci decided that her competitors probably would not be able to afford to set up plants and hire experienced managers in Mexico any more than she could.

"I don't think it's going to hurt us," she said. "I think it will open up a lot of opportunity — make people here in the U.S. work a little harder."