

RECORD OF SOCIETY OF ACTUARIES 1993 VOL. 19 NO. 4A

NAFTA -- CURRENT STATUS

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- Approval and implementation status

MR. CURTIS E. HUNTINGTON: I'm a professor of mathematics at the University of Michigan, the chairperson of the Committee on International Relations of the Society of Actuaries, and a member of the International Section Council.

We have assembled a distinguished panel representing three countries that are involved in the North American Free Trade Agreement (NAFTA)¹ negotiations. From the United States we have Robert Rogowsky, who is the director of the Office of Operations of the U.S. International Trade Commission (ITC). He has served as director of the Office of Industries at the ITC. He has also served as a deputy director of the Bureau of Consumer Protection at the Federal Trade Commission. He earned his Ph.D. in economics at the University of Virginia. Robert's staff has completed ten studies in the last two-and-a-half years that have analyzed the NAFTA agreement and parts of it, and he will be sharing some of those background results with us.

From Canada we have Morris Chambers, who is vice president and corporate actuary of London Life Insurance Company, and also the immediate past president of the Canadian Institute of Actuaries. He is a Fellow of the Canadian Institute, a Fellow of the Society of Actuaries, and a member of the American Academy of Actuaries. He is also chairperson of the task force addressing codes of conduct and standards of practice of actuaries under the North American Free Trade Agreement.

We will be joined by Carlos Terroba from Mexico, who has a master's degree in actuarial science from the Universidad Nacional Autonoma de Mexico. He has worked in a number of consulting practices in the Mexican actuarial arena and is the founding partner, owner, and chief executive officer of Benefact Actuarios Consultores, which is affiliated with Milliman & Robertson in the United States and the Woodrow Milliman Actuarial Network worldwide. In addition, Carlos has been a professor of actuarial science at his university from 1975 to 1985 and has been an independent actuarial consultant to various federal and state government dependencies in Mexico.

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¹ Editor's Note: NAFTA was passed by both houses of Congress in November 1993.

We are going to have three fairly distinct presentations. We will start with the United States, then we will go to Canada, and then we will end up in Mexico. I will present some information about recent activities in the area of recognition of the education and accreditation of actuaries under NAFTA.

MR. ROBERT A. ROGOWSKY: I'm always a little intimidated as a government bureaucrat coming up into the haven for private sector people and even more so now being the only economist in a room full of actuaries. We always learned that economists were people that didn't have the personality to be an actuary. Let me start off by offering a disclaimer that I come to speak to you strictly as Robert Rogowsky. I can't represent the International Trade Commission. My views are not necessarily those of the commission or any single commissioner.

We have been studying NAFTA quite extensively for the last two-and-a-half to three years. Our latest study came out in January and I'd like to talk a little bit about it. I see the title note is "Current Status," and that's a little bit difficult to keep up with. Is that this morning's status or this evening's status? I can sum it up by suggesting you read *The Wall Street Journal*, which pointed out that passage of the NAFTA legislation seems to be fairly certain in the Senate and iffy in the House, and it doesn't get much more scientific than that at this point.

I make no projections about it. I was able to testify before Representative Gibbons a little while ago, and he is still arguing that this is a very iffy proposition. Of course, he is one of two politicians in the state of Florida who have come out in support of NAFTA – he and the governor of Florida. The rest have taken a much more negative stand towards NAFTA, in part because they feel Florida will be rather severely affected by the free trade agreement because of the kinds of products that Florida produces.

It's a little bit hard to interpret what is going on with NAFTA. It always reminds me of a recent incident on the Mexican border, which you may have heard about. A Mexican bandit came across the border up into a small town in Texas and robbed a bank. In fact, he cleaned the whole thing out and then scuttled right back across the border. They sent a Texas Ranger to track him down, which he finally did in a small town in Mexico. He found out that the Mexican bandit didn't speak English and the Texas Ranger didn't speak Spanish, so he called over this distinguished looking fellow walking across the street, who turned out to be the lawyer in the town, and asked him to translate. He said, "Would you ask this fellow what his name is?" "What's your name?" "My name is Jose." "He says his name is Jose." "Ask him if he went across the border and robbed that bank." "Did you go across the border and rob that bank?" "Yes, I went across the border and robbed that bank." He reports back, "Yes, he said he went across the border and robbed that bank." The Texas Ranger pulls his gun out, cocks the hammer, puts it right up to the head of Jose, whose eyes popped open and mouth hung down, and he says, "Ask him where the money is." "Where's the money?" "I put the money in a pouch inside the well right in the middle of town." The translator says, "Jose said he is prepared to die." Translators often come out ahead, but I'm not going to try to translate too much about NAFTA. I will just suggest some of the things that we found in our studies.

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Since the mid-1980s, Mexico has been opening its economy to foreign competition and liberalizing its trade and investment policies, privatizing many state-owned or state-controlled economic sectors, and reducing subsidies. NAFTA, we anticipate, will remove many of the remaining barriers to trade and investment and will help to ensure that Mexico's recent economic reforms remain in place. This will pave the way for greater economic integration among the three countries.

First, under NAFTA, the United States and Canada will gain greater access to the Mexican market, which currently is the fastest-growing export market for the United States' goods and services. In fact, on a per-capita basis, even when the maquiladora-related trade is excluded, consumers in Mexico purchase more U.S. exports than do consumers in Japan or in the European Community. Second, NAFTA will create investment opportunities that will facilitate trade among member countries in many sectors that may reduce impediments to future trade growth. Third, NAFTA will lead to a more predictable business environment, reducing risks associated with investment and other business decisions. Finally, NAFTA will improve the competitive position of many U.S. industries in North America and global markets.

In addition, the commission's reports also found that certain U.S. industries will likely face employment and production declines as a result of NAFTA. The biggest impact will be in the trade shifts and the investment patterns. Now, to accomplish these, Mexico will have to make many more legal changes than either the United States or Canada, partly because Mexico has been a much more closed society, and in part because of the Canadian Free Trade Agreement, and because the United States and Canada are just generally more open to world trade.

This does suggest that much of what NAFTA is about, what it will try to accomplish, can be accomplished unilaterally by Mexico simply by proceeding with its liberalization efforts and reducing its own tariffs and nontariff barriers. Mexico remains the United States' third-largest trading partner. Canada accounted for about 19% of U.S. trade, Japan about 15%, and Mexico almost 8%. The United States is Mexico's largest trading partner and largest source of foreign direct investment, accounting for over 70% of total Mexican trade in 1992 and 62% of Mexico's cumulative foreign direct investment by value in 1992.

Mexico is likely to benefit substantially more from NAFTA than either the United States or Canada because its gross domestic product is only about 5% of the U.S. gross domestic product. Its economy historically has been closed and its trade has been focused more internally and on some of the less developed Latin American countries. Nevertheless, since Mexico sharply reduced its tariffs in 1987, the United States has substantially expanded its exports to Mexico. In fact, since 1987 we have gone from about a \$5.7 billion trade deficit with Mexico to about a \$5.7 billion trade surplus.

The commission staff estimates that the U.S. exports for consumption in Mexico, that is, minus the maquiladoras [factories close to the border] trade, which are inputs into production, improved by 224% between 1987 and 1992 to about \$30.9 billion. U.S. exports to the maquiladoras sector rose at a much slower rate, about 93%; so the fastest growing part is to consumers in Mexico and not just to the American producers who are along the border.

The commission did a number of economy-wide and sector-specific estimates of the effects of NAFTA, and we did a computable general equilibrium, multisector model. We also did a number of industry-specific analyses of this model. We also had a fairly substantial conference that got all the major researchers in the United States and Canada together to analyze the North American Free Trade Agreement and its effect on the United States and on Canada. We came out from that with 12 economy-wide models. These were all prepared by leading researchers and critically reviewed, and they all came up with one similar conclusion: that the North American Free Trade Agreement would have a small effect on the United States, but it would be a positive one. It would also have a positive effect on Canada and a positive effect on Mexico.

The estimates for the long-term gains in U.S. and Canadian real gross domestic product (GDP) were about 0.5% or a little bit less. The projected long-term gains for Mexico in real GDP range from about 0.1% to as much as almost 12% growth. At the same time, in the American economy, there will be some winners and there will be some losers. Some notable winners are the bearings industry, machine tools, pharmaceuticals, chemicals, computers, and, interestingly enough, automotive parts. Some of the losers are going to be home appliances, flat glass, certain household glassware, ceramic tile, and possibly automobiles. Whether the automobile facilities in Mexico will be losers or not depends on whether they let those old and relatively archaic facilities decline and make up the production in the United States or whether they decide to revamp those plants. That's just not certain at this point.

There's a great deal of political heat coming from the auto industry, as you might guess, but there's also a great deal coming from the agricultural sector. It turns out from our studies that the agriculture sector is not much affected by the NAFTA agreement, in part because Mexico is still extremely small compared to the United States. However, in the long term, as Mexico grows because of the liberalization and other efforts, it does seem that will be a very fruitful market for American farmers. There will be definite winners in fisheries, grains and oil seeds, nonfat dry milk, and cotton. Some of the losers are our friends from Florida producing citrus, shrimp, certain vegetables, peanuts, and flowers. Energy isn't going to be affected much. It's a big sector, but it's not going to be affected much because we've accepted the constitutional argument of the energy sector in Mexico. There won't be too much change, although there is some opening up for energy-related services, so we're anticipating some gains there.

The big winner in NAFTA we think will be the service sector. U.S. services to Mexico are approximately \$8 billion in sales, and that's a small part of the \$250 billion in sales worldwide that American service providers have. A number of restrictions that have prevented U.S. service providers from getting into the Mexican market either have been lifted or will be lifted by NAFTA. We anticipate that there will be fairly substantial gains in the telecommunications market. We anticipate there will be substantial gains in the construction market, although we also anticipate Mexican construction corporations will do quite well in the United States, particularly along the border.

The big winner perhaps is going to be land transportation. We anticipate that the demand for an improved land-transportation infrastructure in Mexico is going to create

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more of a demand than their industry can handle and we'll be able to take advantage of that market, which also has a side effect of allowing industry to more aggressively compete in Mexico and to perform better in Mexico, because one of the problems there is the lack of an infrastructure.

One of the big winners is going to be the insurance market. The removal of Mexico's restrictions on foreign equity ownership in the insurance area is likely to result in the expansion of U.S. investment by something more than 16% in the long term. However, the cross-border insurance sales may not go up very much because both in Mexico and the United States there's a lot of state regulations or provincial regulations that govern how much can be sold across the border. But we anticipate that there will be quite a bit of insurance investment in Mexico by firms from the United States.

It's also likely that the greater access to the Mexican market is going to offer an improvement for American service providers, particularly the insurance sector, on a global basis because it will be a good access or a good gateway into Latin America and that kind of international exposure will also provide the kind of experience and capability for getting into other foreign markets as well. We are busy working out a framework agreement with the Japanese in insurance, and the United States has not been particularly successful in getting into that market. As the companies go international, the ability to sell well into Mexico and other Latin American countries, we think, will have a beneficial effect on many medium-size and smaller insurance companies.

The commission's findings, and not just our own findings but the findings of the researchers that we have employed and that we have worked with throughout the United States, have been clear and unequivocal. The Mexican economy has undergone a striking metamorphosis in recent years. Trade and investment barriers have been lowered. Intellectual property rights have been strengthened and many state enterprises have been privatized. In fact, it's quite a remarkable number. I was talking to someone at the Mexican Embassy, and it was something like 1,000. A remarkable number of firms have been privatized.

NAFTA will lock in these reforms. I suggested that Mexico can accomplish much of NAFTA on its own, but the agreement will lock in much of this reform and will give to the Mexicans and the Americans the benefits of a more liberalized economy. Our report also confirms that NAFTA will not only benefit Mexico, but the U.S. and Canada. Although a few U.S. industrial and agricultural sectors will face more intense competition, the overall U.S. economy will benefit. We will enjoy more jobs. We will increase exports more than we would expect, and the estimates are that we'll even have higher wages in the United States. Some of the studies find that there may be a slight drop in the average wage in the United States, but it is not statistically significant. Most of the studies find that there will be a positive but small effect on wages in the United States.

Finally, just to talk about the employment effects, we've heard an awful lot about job loss and this "great sucking sound" toward Mexico. It's just wonderful that you can get this on a bumper sticker. You really have a big impact in Washington. Perot was the winner in the bumper-sticker contest. However, the fact of the matter is that the studies find that there will be a net gain in jobs in the United States. Even in those

sectors where there will be a decline in jobs, the numbers are small enough that they fall within the natural turnover in almost any industry during the course of a year.

Just to give some magnitude, they were talking about 300,000 jobs lost. That wasn't a net figure, but it was a figure that the opponents of NAFTA came up with, when in fact the turnover in the American labor market is about 1.5 million jobs in a year. It gets lost in the natural turnover of jobs in the American labor market, so the job loss is fictional in the sense that the net job effect will be a gain and even that is relatively small because the Mexican economy at this point is really quite small compared to the United States economy. So no industry can say it is going to be a major winner and no one can say it is going to be a major loser either. I'd be happy to answer any questions at the appropriate time.

MR. HUNTINGTON: Next will be a presentation from Mo Chambers on the Canadian perspective.

MR. MORRIS W. CHAMBERS: The discussion of the North American Free Trade Agreement with respect to the actuarial profession is a lot easier if we step back from it for a moment and review the existing free trade agreement that is in place between the U.S. and Canada. The U.S./Canadian Free Trade Agreement, or the Canadian/U.S. Free Trade Agreement, if you're Canadian or an American who orients your life alphabetically, was signed in 1988 and took effect January 1, 1989, to be implemented gradually over the following ten years. Generally speaking, to this point it has not had much effect or impact upon the actuarial profession.

This past June, however, following a year or so of discussion within our profession and some delay because of an unrelated challenge in the Supreme Court of Canada to the legitimacy of the Canadian Institute of Actuaries, formal application was made to have the actuarial profession recognized officially under the Canadian/U.S. Free Trade Agreement. The application was made jointly and simultaneously by the Canadian Institute of Actuaries in Canada and by the American Academy of Actuaries in the U.S.

Under the application, it is proposed that a U.S. actuary can cross the border and earn income in Canada if he or she is a member of the American Academy of Actuaries. Reciprocally, a Canadian actuary can earn income in the U.S. if he or she is a Fellow of the Canadian Institute of Actuaries. You may well ask, "What's the big deal? Consulting actuaries have been crossing the border for years to provide professional service and advice." While that is true, it is also true that few who did so admitted it at the border, because immigration officials had the right to bar their entry if they were going to earn income in the other country. With the actuarial profession specifically included in the Free Trade Agreement, immigration officers will be obliged to permit entry.

Now, before you all line up at Buffalo and Detroit next week, I would point out that while the application was made in June 1993, it will probably be followed by a year or so of bureaucratic consideration, including public hearings, before the actual addition is made to the agreement. You should also know that a good deal of discussion and negotiation within the profession preceded the application. In particular, it followed the formal agreement by the other four actuarial organizations

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headquartered in the U.S. – the American Society of Pension Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries – that being a member of the American Academy of Actuaries (MAAA) would be the U.S. prerequisite for transborder activity.

It also involved, obviously, agreement and coordination between the Canadian Institute of Actuaries (CIA) and the other organizations. That agreement and coordination was greatly eased by the earlier work begun under the direction of the Council of Presidents. Three initiatives paved the way for a relatively straightforward preparation and submission of the application: (1) the adoption of a common, or at least mostly common, code of conduct by each of the bodies; (2) the recognition that the Actuarial Standards Board standards apply for U.S. work and CIA standards of practice apply for Canadian work; and (3) the adoption of reciprocal disciplinary responsibilities by the CIA and the Actuarial Board for Counseling and Discipline on behalf of the U.S. organizations.

The experience that we have gained with the Canadian/U.S. Free Trade Agreement has highlighted the four areas that must be dealt with by the professional bodies in preparation for NAFTA: (1) qualification and accreditation, if you wish to expand it in that way; (2) code of conduct; (3) standards of practice; and (4) discipline.

A task force with representatives from the three countries began work on the issue of qualification and accreditation back in January and reached an agreed-upon position early last month in Victoria. Curtis will be discussing the details of that in a moment.

A second task force, the one in which I am involved, is looking at codes of conduct and then at standards of practice. We have met twice by conference call and have exchanged some written material. Our first task is to prepare a comparison of the codes of conduct and to identify any gaps to be filled. In view of the redrafting work done over the past three years of the codes of conduct of the U.S. organizations and on the Rules of Professional Conduct of the CIA, it is unlikely that there will be a stampede to revamp them again.

Preliminary review of the code of ethics of El Colegio Nacional de Actuarios in Mexico has not revealed any glaring inconsistencies or highlighted any fundamental elements that are not dealt with therein. We must keep in mind that our goal is to ensure the codes of the different organizations are consistent. We learned in the U.S./Canadian discussions that uniformity of codes between organizations of different nations is not a realistic expectation because of differing legal environments and varying cultural backgrounds. The objective then is to ensure overall consistency and to avoid fundamental contradiction. So far, there doesn't appear to be a problem in that regard.

Nonetheless, I understand that the Mexican code has been in place for at least a decade, and in view of developments in Europe and elsewhere, the Colegio may wish to consider updating the format and the wording of its code. In fact, I understand from Pablo Noriega that just such a review is likely to be undertaken in the next 12-18 months.

Having dealt with the codes, we will turn our attention to standards. Now since it has been generally agreed that standards of practice are jurisdiction specific, I see this task as being largely one of documentation, so that each organization is aware of and can inform its members about the standards of the others.

A third task force has been dealing with discipline effectiveness and reciprocity. I understand that group has had two conference calls and an exchange of documents, but I can't report further on their progress. I would say that this area, in my view, will be the most difficult actuarial area or issue in NAFTA for two reasons. First, and I may be wrong, but I understand that there is no formal or effective disciplinary process in the Mexican actuarial profession. Second, in Mexico, professional discipline must involve a government department because the actuarial designation is effectively a license to practice. True, the Colegio has the power to withdraw an individual's membership, but only the government can remove the right to practice. Despite this difficulty, I am certain that an acceptable arrangement will be made.

Incidentally, there is one aspect of the U.S. codes and the Canadian rules that so far remains unresolved. It has been agreed that a Fellow of the Canadian Institute of Actuaries (FCIA) or an MAAA must follow CIA standards in Canada and Actuarial Standards Board standards in the U.S. Furthermore, we are committed by our codes to follow local standards in a third jurisdiction if it has standards. But what about a foreign jurisdiction without standards? The Society of Actuaries says that its members must follow Actuarial Standards Board (ASB) standards. The Canadian Institute of Actuaries says that its members should follow CIA standards. No problem there, except for someone like myself who is both an FCIA and a Fellow of the Society of Actuaries (FSA). What am I to do on the island of Martinique if I ever work there? Do I follow CIA or ASB standards?

A possible solution is to follow the standards of the jurisdiction of usual residence – CIA standards in my case. That certainly narrows the problem, but it does not solve it for the dual FCIA/FSA who happens to live in the lap of luxury in Martinique. Any suggestions that you may have to resolve this dilemma are welcome. A few minutes ago, I made passing reference to developments in Europe. John Martin provided an excellent summary. Nonetheless, Curtis has suggested that we might underscore what has been happening on that front because there are some interesting links to and parallels with North American developments.

As was the case here, in Western Europe discussions between actuarial organizations to establish more formal links were stimulated by the progress being made toward economic union within the European Economic Community (EEC). I understand that the EEC agreement requires that there be free access between countries by professionals. Thus, if a full-member actuary in France provides professional services in Germany, the French actuary must, upon application, be admitted as a full member of the German actuarial association. The agreement, therefore, requires that the Institute of Actuaries in England or the Faculty of Actuaries in Scotland extend Fellowship status to immigrant actuaries who are full members in actuarial organizations in other EEC countries.

As John Martin, the President of the Institute of Actuaries, told us at the General Session, the actuarial organizations of the nations involved had set up the "Groupe

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Consultatif des Associations d'Actuaires" to undertake discussions toward a greater degree of commonality within the profession. The Groupe Consultatif includes representatives of 15 actuarial organizations in Belgium, Denmark, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, and Spain, as well as the Institute and the Faculty in the U.K. By the way, organizations in Iceland, Norway, Sweden, Austria, Switzerland, and Liechtenstein are waiting in the wings. The initial recognition agreement was adopted in April 1991.

In November 1992, just short of a year ago in Florence, Italy, the Groupe reached accord in two major respects. First, the common principles of codes of professional conduct were agreed upon. These common principles establish, in effect, the minimum requirements to be incorporated in the codes of conduct of each of the participating organizations. Any association may adopt stronger rules or additional rules as long as such modifications do not conflict with those prescribed in the code. The code is open-ended in that it must be adopted by any national association of actuaries applying for membership in the Groupe Consultatif in the future.

It is gratifying to U.S. and Canadian organizations that this European common code is essentially consistent with the uniform code developed here. One might loftily ascribe the similarity to some innate common ethical standard associated with the actuarial mind. The reality is that the Europeans drew on the work that was being done at the time in the same area in North America.

Beyond the code itself, any participating association must include in its rules appropriate disciplinary procedures to ensure enforcement of the code.

The second area of accord reached in Florence last November was the adoption of uniform Recommended Practice Guidance Notes. These are not standards of practice; standards of practice are developed on a nation-specific basis and are pertinent to the jurisdiction in which the practice is conducted. Rather, these guidance notes are extensions of the code of conduct in respect of practice-specific matters. They have been prepared in three practice areas: pensions, life assurance, and general insurance.

Back here in North America, we are regularly regaled by the media, and it has been referred to already, with predictions of the collapse of the NAFTA. Certainly it appears to be an uphill battle in at least part of the U.S. Congress. In Canada, some party leaders in the current federal election campaign speak of renegotiating and even of abrogating the agreement. Whatever happens at the diplomatic or the governmental level will, of course, be little influenced by the actuarial profession.

On the other hand, development of interorganizational links in the actuarial profession will, I think, be little influenced by whether or not NAFTA proceeds. NAFTA acted as the catalyst to initiate contact with the Colegio in Mexico. With the Colegio now a participant in the Council of Presidents, the relationship will grow regardless of whether the NAFTA goes forward.

MR. HUNTINGTON: We are now going to the audio/visual medium. Carlos Terroba's presentation will start with some introductory remarks and then we will be showing a video.

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MR. CARLOS J. TERROBA: First, I want to express my gratitude for your presence here. At this time, Sessions 61-80 are in progress. We are in Session 65. There were 20 different possibilities and you are here.

Unfortunately, English is the official language, and I am fluent in Spanish. I anticipate possibly using some expressions that may not be correct, but effort is the thing that counts. When I received the invitation from Curtis Huntington, I was told to follow these rules.

First, say hello to the audience. "Hello!" Then give a speech for around 20 minutes involving the Mexican perspective of NAFTA. I said, "Twenty minutes reading a lot of papers that perhaps nobody really understands, and after the Presidential Lunch? I think that's too risky. That would be very hard." Some of you may become a little sleepy, so I made a clever decision and I developed a video cassette that will show you our point of view on this matter. This videotape lasts around 16 minutes, plus the initial words, and some remarks at the end will take me to 20 minutes. What you are going to watch will show you how different Mexican actuaries and our industry are from their counterparts in the U.S. and Canada. In a global market without NAFTA, the conclusions could be we need you and you need us.

(VIDEO PRESENTATION) "The Actuarial Profession under NAFTA: A Mexican Perspective" by Actuary Carlos Terroba, Chief Executive Officer of Benefact Actuarios Consultores, S.A. de C.V., the Mexican Member of the Woodrow Milliman International Actuaries & Consultants Network.

For those who question the definition of "short cut" as the longest distance between two points, the exhausting negotiations for the North American Free Trade Agreement should make them review their skepticism.

Just consider the paperwork involved. The U.S. and Canada Free Trade Agreement, in effect the last few years, is a thin booklet. In contrast, after the "side agreements" on labor and the environment (September 1993) added to the more than 400 pages of the basic text (from August 1992), NAFTA volumes look like the Encyclopedia Britannica, and nobody thinks their seemingly uncontrolled growth will stop any time soon. There are still some more crucial issues pending on the agenda of discussions mainly pursued by the United States.

Why the amazing difference? Well, for one good reason. We Mexicans are really different, radically different in many ways. That's precisely the core of my conversation with you -- the opportunities and risks inherent to the actuarial consulting professions of the three countries after the merging of truly different economies and cultures within this new and enlarged macro business region called North America.

What does NAFTA mean to Mexico? Important as it is, we see NAFTA as more than just the creation of a free trade zone of 360 million consumers, spanning 21 million square kilometers, and having a combined annual gross product of \$6 trillion. We know it's just the

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beginning of a natural and gradual process of integration between the three nations, two of which are quite similar in every sense, and the third party, Mexico, extremely different in almost every sense.

We also understand that although full, free trade is the medium-term goal by the year 2000, in the short term the agreement with Mexico will actually settle for fair trade (all those meticulous speculations and hundreds of pages).

Beyond specifically economic considerations, we are well aware that NAFTA implements the peaceful and orderly, nonetheless dramatic collision of two geographical zones having very different ethnic, economic, language, political, cultural, legal, and religious backgrounds.

We view NAFTA as a revolving door. For Mexico and its national economy, fifteenth [largest] in the world, it means definitive access to the developed world. For the U.S. and Canada, the gate to the Latin American community: an underdeveloped but promising market of 400 million people and vast natural resources.

How can we measure global business opportunities for our profession under NAFTA? With a combined trade volume of roughly \$85 billion a year, Mexico is the U.S.'s third [largest] trading partner after Canada and Japan, with the U.S. being the main importer of Mexican exports, 65% of the total, with a clear balance favoring the U.S. Regarding Canadian and Mexican trade, annual volume is much lower, but not negligible, and each country is the other's sixth [largest] trading partner.

Areas of opportunity become quite evident if we consider that in the so-called "industrialized" nations, the share of industry and gross national product is under 25% as compared to a strong 70% from the services sector (66% in Mexico); and that financial services play a very important increasing share, including the insurance sector and related activities like actuarial services.

Moreover, it's already remarkable size (nearly 25% of the \$3.5 trillion total worth of annual international trade), the services sector has maintained a most dynamic pace, fueled by telecommunications and the computer revolution during the past 20 years, the externalization of services (the preference of companies to buy available external services rather than performing them in house), the increasing content of service-related elements to produce goods, and the internationalization of business operations.

Will NAFTA be approved or not? We are certain NAFTA will eventually be approved by the United States Congress, although that may not happen by the deadline originally slated for January 1, 1994. Major problems are well known. There are labor concerns from the AFL-CIO,

environmental pressure from ecological groups, and of course, Ross Perot.

All those issues are serious and none can be ignored. However, much as politics has aspects that lack economic sense, in the end, bread and butter have their say too. Economic globalization has no return, and the fast consolidation of two rivaling regions (the European Community and Southeast Asia) represents additional pressure on North America to assert itself as the leading economic power in the world into the next highly competitive century. That doesn't only mean technology and capital, but also accessible broad markets, plentiful labor, land, coastlines, and abundant resources, both renewable and not. President Clinton will submit NAFTA-related legislation to Congress on November 1 (not the agreement itself, which is an executive document); Congress then has 60 congressional days to examine and vote on it in a maximum [of] four to six months. However, President Clinton hopes to have it approved by November 17. If that's not possible, then approval in 1994 will be extremely difficult.

We currently place odds for approval at around 50/50 – roughly 40% of legislators in favor, 40% against, 20% undecided – but in the near future we can practically assume that chances are 100%. In any case, it's just a matter of time.

What are the opportunities for U.S. and Canadian actuarial services under NAFTA's financial services provisions? They seem rather obvious after a closer look into the provisions included in this chapter, where NAFTA establishes a comprehensive, principles-based approach to disciplining government measures.

- Financial service providers of a NAFTA country may establish in any other NAFTA country banking, insurance and securities operations, as well as other types of financial services.
- Each country must allow its residents to purchase these services in the territory of another NAFTA country.
- A country may not impose new restrictions on the cross-border provision of financial services in a sector unless the country has exempted that sector from this obligation.
- Each country will provide both national treatment, including treatment relating to competitive opportunities and most-favored-nation treatment to other NAFTA financial services suppliers operating in its territory.
- Any measure that does not place financial services suppliers of another NAFTA country at a disadvantage in their ability to provide financial services as compared to domestic suppliers is deemed to provide equality of competitive opportunity.

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- In processing applications for entry into its financial services markets, each country must observe procedural transparency on both information and decisions.

What are NAFTA's most relevant aspects regarding the insurance sector? Under NAFTA, Canadian and U.S. insurers may gain access to the Mexican market in two ways. First, firms that establish joint ventures with Mexican insurers may increase their foreign equity participation in such ventures up from 30% in 1994 to 51% by 1998 and 100% by the year 2000. Such firms will not be subject to aggregate or individual market-share limits. Second, foreign insurers may establish subsidiaries subject to aggregate limits of 6% of market share, gradually increasing to 12% in 1999 and subject to individual market share caps of 1.5%. These limits will be eliminated by January 1, 2000.

Canadian and U.S. firms that currently have ownership interest in Mexican insurance companies may increase their equity participation to 100% by January 1, 1996. Intermediary and auxiliary insurance services companies will be allowed to establish subsidiaries under no ownership or market-share limits when the agreement goes into effect.

In addition to such generic provisions, in the item covering a country's specific commitments, Mexico will allow financial firms organized under the laws of another NAFTA country to establish financial institutions in Mexico subject to certain market-share limits that will apply during a transition period ending by the year 2000. Thereafter, temporary safeguards may be applicable to the banking and securities sector, but not to insurance.

What are the significant differences between Mexican, U.S., and Canadian insurance and actuarial services? Some of the most relevant differences are:

- There are thousands of insurance firms in the U.S. and Canada, while Mexico has less than 40, with 80% of the market firmly controlled by just five of them, ranked somewhere between the 30th and 80th slot in the U.S. table of positions by direct premiums criteria. Well, there's a name for that – oligopoly. Although Mexican authorities have relaxed procedures and softened requirements, only two additional Mexican companies have been approved for operation after decades of immobility and only two others out of the four U.S. insurers that have applied for inclusion have received favorable opinion from the National Insurance and Bonding Commission. This is the first, formal step in the otherwise excruciating process of approval.
- In the U.S. and Canada, the legal framework to operate an insurance company simply calls for authorization, much like any other business. In Mexico, it's still a government concession, a

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much less secure framework. However, this vulnerability seems bound to change soon, precisely to fit into NAFTA guidelines.

- The number of Mexican actuaries accounts for roughly 1% of those in the U.S., servicing a population a third as large. Besides, the licensing procedure in the U.S. goes through a board of trade provided by senior members to junior applicants, while in Mexico it depends on bureaucratic recognition upon concluding a college degree.
- The creation of new plans and products in the U.S. is a marketing responsibility. Its instrumentation is mostly an actuarial consulting function. In Mexico, both tasks have been traditionally performed by in-house actuaries.
- While in the U.S. and Canada it is almost inevitable to stumble into an actuary in every town, in Mexico we are all crowded into two cities -- Mexico City, the capital, and Monterrey, the nation's second industrial powerhouse.

Insurance markets also have their differences. When compared to the rest of North America and Western European countries, the average Mexican consumer lacks a mentality for insurance protection. In fact, most Mexicans are simply not aware of the need for insurance coverage as individuals and even in some cases as small businesses. Add the limited purchasing power of ample segments of the population and that explains why less than 5% of related death victims had some kind of insurance coverage and less than 3% had material damage insurance right after the 1985 earthquake.

A typical American and Canadian company normally performs under a specialization spectrum, while almost all Mexican carriers are all-lines writers with all of the related confusion and inefficiencies, of course. Due to its lack of experience in recruiting, training and motivating sales forces, our market often calls for commitments beyond conventional management skills. A regular payments discipline is nearly nonexistent in our market, making it very difficult to collect premiums and effectively neutralizing many otherwise well-supported products, including mass merchandising.

There are many other subjective and regulatory differences that force interdependency between Mexican and foreign actuaries.

The conclusion is simple, categorical and supported by a long history of frustrating precedence. Due to rather different legal, cultural, economic, and technological conditions, no foreign insurance or actuarial product, plan, software or system, no matter how well-designed and thoroughly tested, is adaptable to the Mexican market without careful adjustment by Mexican actuaries familiar with local market practices.

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MR. TERROBA: The video shows that the commerce between Canada, America and our country started many years ago. We talk specifically about America in the last century. In 1890, a century ago, our major plan for Mexican exportation focused on America, with 69% of the total Mexican exports and 56% of our imports from your country. The signing of NAFTA seems to be almost a mutual need because the three countries are looking for an increase in exports, an increase in employment, an increase in personal income, and a growth of investment.

Total exports for Mexico last year were more than \$42 billion. Seventy-three percent came from the U.S. and 4% came from Canada, but in Canada it's growing fast at a rate of 10% or more every year. If we compare NAFTA with the European Community, our market, the NAFTA market, involves 360 million people with a gross domestic product of \$6 trillion, and the European Community is \$323 billion and just \$4 trillion.

We're talking about the largest market in the whole world. With or without NAFTA, we have great chances of working together because global perspectives are normal in the present and in the future. We have to work on global perspectives.

MR. HUNTINGTON: As Mr. Chambers indicated in his presentation, there has been a task force in operation for most of 1993 looking at issues of education and accreditation on the assumption that NAFTA would pass. I thought that I would bring you up to date on some of the deliberations and recommendations of that group. The group consisted of six actuaries, two recognized in Mexico as members of the Colegio Nacional, two from Canada, and two from the United States. I was one of the U.S. representatives. We met several times over the course of the year in each of the three countries and we have made a recommendation in terms of two levels of participation on the transborder activities under NAFTA.

We have labeled the first one Level I and defined it to be the requirements for those wishing to do income-earning work in another country, those who want to be able to earn a living in another country. The recommendation of the subgroup is that a Canadian wanting to practice in another country must have an FCIA designation. A Mexican wanting to practice in another country must have the actuarial designation plus membership in the Colegio. For an American to practice in one of the other two countries, the requirement would be that you have an MAAA designation and be either a Fellow of the Casualty Actuarial Society, a Fellow of the Society of Actuaries, or a Fellow of the Conference of Consulting Actuaries.

In terms of Level II, which has been defined as the requirements for an applicant to be eligible to sign statements of opinion in the other country, the subgroup has identified four individual practice areas – health, life, pension, and property and casualty – and has made recommendations that are somewhat more specific in terms of the impact on each of the other country's qualified actuaries. We have six criteria that we are recommending.

The first is knowledge achievement in practice areas in your own home country. We have indicated that the same designations that I indicated in Level I – that you can demonstrate that you have received the knowledge achievement in your practice area in your home country by either the FCIA designation, the act and membership in the

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Colegio, or the MAAA plus one of the three Fellowship designations in the United States – will satisfy this criterion.

For the second criterion, we have recommended that there be a level of experience in the practice area in the home country. For a Canadian, that would be a requirement of three years of experience under the supervision of, or attested to by, an FCIA. For a U.S. resident, the requirement would be three years of experience under the supervision of, or attested to by, a member of the American Academy of Actuaries. For a Mexican, the requirement would be three years experience after being qualified as an actuary, and such experience to be attested to, or supervised by, a qualified actuary.

Note that there is a difference in the Mexican context. As Pablo Noriega indicated in the general session, the way to qualify for the act in Mexico is a university-based education system. Most of the members there get their designation within a six-year time period, including the college work and some practical experience. The Mexicans suggested that a three-year experience requirement would be beneficial to recognize the difference between the U.S. and Canada, where most actuaries achieve Fellowship after significant post-university work experience.

The third criterion that has been recommended is the ability to pass an examination in one's own practice area in the new country. Each of the three countries is being urged to set up a single examination to test the applicant's ability to apply actuarial techniques in the environment of the new country and to demonstrate the applicant's knowledge of the relevant standards of practice. Applicants would have to pass such an examination in any of the practice areas that they chose to practice in. From a perspective of language, which we have indirectly dealt with, this examination would obviously be given in the language of the host country. For a U.S. or a Canadian resident attempting to practice in Mexico, the examination would be administered in Spanish and would require a knowledge of the Spanish language. In addition, most of the relevant subject matter is in the Spanish language. The Canadians would administer their examination in both French and English, the two official languages of Canada. The U.S. examination would be in English only.

The fourth criterion would be that each of the host countries (each of the three countries) would be required to establish a continuing education requirement in their own country. At present, the United States has such a requirement. It is centered around standards from the American Academy of Actuaries. Canada has plans to introduce such a requirement in the near future.

In Pablo Noriega's presentation to us, one comment was that the Mexican actuaries, in working with their American colleagues, have recognized that there are some new changes that will have to be introduced in Mexico. The Mexicans are going to have to develop, as one of these changes, a continuing education requirement to be administered in their own country.

The fifth criterion would be that you must be able to meet the requirements set out in the law and regulations by the host country, in the new country. For those of you familiar with the Canadian scene, the FCIA is the only requirement in Canadian law and the CIA would intend to qualify applicants under NAFTA as FCIA's. The U.S.

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would intend to qualify applicants by practice area under the American Academy of Actuaries practice councils, and we are recommending that applicants get membership in the American Academy of Actuaries and have an MAAA designation. In Mexico the requirement would be to have an actuarial designation given, plus membership in the Colegio Nacional.

Finally, the sixth criterion that we are proposing is that to practice in the new country you must complete an ethics course in that country. For those of you familiar with the United States and Canadian SOA system, you know we have an ethics course that is part of the Fellowship Admissions Course, the final requirement before becoming a Fellow in the Society of Actuaries. The Casualty Society has a similar requirement to be qualified as an Associate of the Casualty Actuarial Society. It's a course on professionalism. Initially, those two courses, the course on professionalism and the Fellowship Admissions Course, would operate in the United States and Canada. As for the Mexicans, they would have to organize an ethics course for themselves.

That is what's going on in terms of education and accreditation issues.

MR. TED L. DUNN: I don't have a question, but I do have a comment. Two or three weeks ago I returned from Russia, Poland and Hungary on a trip that was sponsored by the People-to-People Organization, and it was also aided and abetted by the International Section of the Society of Actuaries. This group of nine actuaries and three spouses went to Warsaw, Moscow, Krakow, and Budapest. We met with actuaries, regulatory people, business people, professors, economists, and people of that kind. The real purpose of the trip was to see what type of help these people needed in the various countries and to try to get actuarial education started in each of these countries. They are in an embryonic stage, I might add. When the countries were communistic and you had only one or two insurance companies in the entire country, there really didn't seem to be much of a need for very many actuaries. I was very impressed by the dedication that these people are exhibiting and I think they will be successful, but they do have a long, long way to go. Their rates of inflation are such that it's very difficult to sell insurance products in these countries. Having been covered by health care schemes for 40-70 years, the populations in these countries simply don't see very much need for insurance products.

FROM THE FLOOR: This is an excellent panel. I'm very impressed with how much the profession has done and is doing. I'm the director of government information, so I don't know a lot about what's going on within the profession. I have a question for Dr. Rogowsky, which has nothing to do with actuarial science or with the profession. In the United States, you painted such a glorious picture of how good NAFTA would be for the U.S. and how few really severe down sides there are. I've heard it said several, if not many, times by members of Congress who oppose NAFTA that, in principle this is right, but in fact this isn't the right agreement. This particular agreement isn't right. What are they referring to? Their comment always eludes me. What are the specifics that they object to?

MR. ROGOWSKY: I'm not entirely clear on what it is they're referring to. Generally, they turn to the idea that this trade agreement doesn't have all the safeguards that they would like to see for American workers or for the environment. Those are the

two big issues. What they turn to is a call for a different agreement, one that satisfies those concerns. It's hard to imagine, first of all, another agreement actually coming to pass. There really are no other trade agreements that have gotten into such a broad array of public policy as this one. Trade agreements generally don't go to the idea of environmental safeguards and worker's compensation plans.

There is a trade assistance program, which is designed to assist people who are placed out of work because of trade agreements. That's a very old program and it's funded by several hundred million dollars actually and not often implemented because it's very hard to decide who is affected by trade agreements, especially fairly broad ones like the Uruguay Round, General Agreement on Trade and Tariffs (GATT)², or other agreements. It is particularly hard now that they have the side agreements negotiated with the Mexicans, on the environment and labor, to understand what else they wanted.

I was privileged, when I was testifying before Congress, to be preceded by a panel of environmentalists. The environmental community is quite divided about this, because some of the people on that panel were vehemently opposed to *this* agreement, not an agreement in general, but this agreement. A large part of the environmental community is very strongly in support of the agreement, particularly because they anticipate that there will be better environmental controls, regulations and consequences as a result of this agreement, because without it there are no controls.

It is very hard to pin down those who oppose it to determine what exactly they want to see happen. They don't give specifics, and I'm not clear on just what it is that they want to see. As was reported recently, a new international development bank has been proposed by the United States and Mexico, to the tune of \$8 billion, to fund clean-up measures in the border area. No other agreement has anything like that. There are numerous proposals for helping out with any job-placement problems that might happen as a result of the trade agreement, and that's being tied up with the closing of military plants.

It's a little bit hard to say exactly how much goes for the trade agreements, but it's hard for me to understand their concerns. I don't know specifically what they want. It is hard to imagine that if we don't have the NAFTA agreement now, that Mexico would be willing to jump in quickly with another agreement that is even more strict or has greater endeavors to clean up the environment or establish the kinds of peripheral agreements that this one has. Maybe you could speak to that, but I can't imagine the Mexicans jumping into that.

MR. HUNTINGTON: Mo, would you want to have a Canadian perspective on that?

MR. CHAMBERS: I wish you hadn't said a Canadian perspective, because I have to admit that it's a personal perspective and it probably reveals a blatant cynicism about politicians. But I expect that the greatest measure of antipathy towards the agreement from politicians is that it lacks iron-clad protection of their own constituents because they're their potential electors the next time we go to the polls.

² Editor's Note: GATT was passed by officials of 117 countries December 15, 1993 in Geneva.

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MR. HUNTINGTON: Speaking of politics, why don't you tell us what's happening in Canada with your election next week?

MR. CHAMBERS: I haven't the slightest idea what's happening in Canada with respect to our election. I will tell you that it's a new world in the Canadian electoral process. I can't recall when there were more than five candidates for office in a federal election; usually one represented each of the three major parties and occasionally there was a representative of the rhinoceros party, which was always entertaining, and occasionally there was an independent candidate.

In this election, there are 11 candidates, no representative of the rhinoceros party -- I guess they figured there wasn't any further entertainment required -- and only one independent. There are ten national parties represented in my riding. That's new. That verges on the Italian election.

MR. HUNTINGTON: We have a probable, major change of government taking place in Canada, and it may have significant impacts on our economic relationships and certainly on the Canadian economy.

MR. CHAMBERS: I'm not so sure that that's necessarily going to be the result. I think the more extreme elements or the extreme voices in Canadian politics are less likely to win, or certainly win a majority. I guess the greatest concern is that we face a minority government where some of the extreme voices may have an opportunity to speak louder than they would under normal circumstances.

MR. HUNTINGTON: Carlos, how do the Mexicans feel about Ross Perot?

MR. TERROBA: We think that Ross Perot is against our country and he really doesn't know the way that we work or the way we develop anything. I have some opinions on Perot. Perot says things, but he really doesn't know our country. First, he is right about some of the things, and he is completely wrong about some of them. The one that he is right about is that the Mexican employees make less than minimum wage in many cases. There's an underworld that works in Mexico. Second, Americans and Canadians have a health system and a labor system. In Mexico it's kind of hard to explain that.

Perot thinks that NAFTA is not really a free-trade agreement. He thinks that it's more an investment agreement that will provide a guarantee to the American investors instead of really developing environmental or labor things. It will only guarantee the investments. Maybe Canada and the United States have little difference when talking about income and talking about taxes. There's a great difference in our country.

On the other hand, I think without NAFTA Mexico will not grow, because of the problems created by the contraband and more drug dealing. Of course, the trade will not move to the maquiladoras zone. You are the ones that are manufacturing cars and that will not happen. Maybe you will lose some jobs, but on the other hand, because we are going to increase our power of buying things, you will have different jobs and you will grow in those areas.

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We think that maybe Ross Perot is not thrilled with the Mexicans. We think he is kind of radical. He's very funny when he acts on TV in front of the other candidates. He sells some TV sets, but that's all.

MR. MARK A. SWANSON: Mr. Rogowsky, you alluded to the Uruguay Round a few moments ago. I just thought I'd ask for your personal view on the prospects for GATT now that it's going down to the wire.

MR. ROGOWSKY: My theory is that people respond to their incentives. Economists learn to deal with that. Every major country, especially in the Group of 7 (Great Britain, Canada, France, Germany, Italy, Japan, U.S.) has an incentive to hit December 15, declare victory, and go home. I thought that they were probably close to that until France decided that it did not want to abide by the Blair House Agreement involving agricultural subsidies in Europe. Mickey Kantor, U.S. Trade Representative, just the other day espoused quite a hard line about the American position of opposing any deflection away from the Blair House Agreement, which means that they're not going to buy off on any reduced amount of changes or reforms in European agricultural subsidies. That has always been the sticking point.

I'm not sanguine about the prospects of them coming to an agreement in just two months. I was listening to Sir Leon Brittan the other day speaking about the prospects for an agreement on December 15, 1993 and he is still optimistic officially, but it isn't in his eyes. He was clear that if there isn't an agreement on December 15, 1993 he thinks that there will not be a call to come back later. He really feels that this is going to be the one shot at it.

I can't give a very optimistic projection, and I find that distressing because it is a very important agreement. There are many things in the agreement this time that would be very beneficial for world trade in terms of steel, services, and intellectual property rights. There's much good in there, but it's really hung up on this agricultural thing, and I'm not really optimistic about it. I hope I'm wrong. As an economist, I should expect to be wrong, so I'm sort of hopeful that I will be.

MR. HUNTINGTON: We have covered a wide range of topics. The North American Free Trade Agreement is complex, and it has required a convoluted process of negotiating. There are significant benefits in store if it gets passed and adopted by our three countries. This presentation has given you an opportunity to hear three distinguished panelists and their perspectives on what NAFTA is and what it might be for the future.