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BACKGROUND AND PURPOSE OF THE WORKSHOP

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With the signing of the North American Free Trade Agreement in 1993, the stage was set for increased trade north and south among Canada, the United States and Mexico. Trade flows have increased steadily over the six years since the treaty was signed. Trade data and several economic studies indicate where and how product and service flows have increased. Two of our earlier workshops have presented data and analysis of some of the effects of increased trade and some of the conditions required to reduce trade and policy tensions among the NAFTA partners.

The Workshop series originated in 1995 with the idea that economists could do something about issues of agricultural and food policy within the three signatories to the NAFTA to affect trading relationships and achieve harmony in policy development. Despite implementation of a trilateral trade agreement among these countries (NAFTA) and significant progress achieved on global agricultural trade arrangements in the Uruguay Round, trading relations are far from harmonious. Our basic objective in these Workshops is to generate current, timely and relevant economic information as a means to improving the relationship among our three countries, and thereby reduce the incidence and costs of policy stress and trade disputes. An important secondary objective is to establish links with colleagues and industry representatives in each of the three countries.

Over the almost six years that this Workshop program has run, we have established a strong network among Canadian and U.S. academic economists, government officials, and business representatives. We are in our fourth year of significant contact with our colleagues from Mexico, and those links are also forming. The workshop reported in this publication was held in Mexico in order to extend the scope of knowledge and contacts with Mexicans by Canadian and U.S. food industry participants. With the advantage of location and increased participation by our

Mexican colleagues this workshop was used *to focus on the role and position of Mexico in the NAFTA.*

From our previous Workshops we have learned a number of things about policy stress, trade disputes, and what it takes to move toward more harmonious trading relations. A trade agreement is an important first step, but it is only one step. Workshops Three and Four dealt with many of the government policy and program factors that need to be modified to accommodate business, government and public demands. That is the macroeconomic policy framework.

But there is another important area that must also adjust in response to the policy and trading environment. That is the *micro-economy of decision makers, investors, entrepreneurs and others* who fund, bear the risks, and produce, process and distribute the products which will be traded....*the private sector.* Conventional wisdom suggests that, within the private sector, as competitive conditions change in response to changed rules and terms of trade, there will be "winners" and there will be "losers". But we have learned that the economic system which has evolved within the three countries as trade has increased creates entirely new forces and pressures, as well as new opportunities. Investment, finance, exchange rates, business organization, trading rules, and many other conventions take on new challenges within the private sector. In Mexico, the structural change and altered market signals imposed on small farmers and small entrepreneurs elsewhere in the food chain create new stresses and challenges. These conditions may be less apparent in the United States and Canada, but they are very real there as well. These are components of policy stress and potential trade disputes, which play out at the micro level of the economy, that deserve investigation. This is the conceptual base which guided analysis and discussion in Workshop Five.

It is common to refer to the process of restructuring policies and programs by *governments* in response to trade agreements as "*harmonization*". Our third Workshop actually focused on that term and its meaning in an international context. This Workshop dealt with private sector response to a trade agreement. The process of firms responding to altered market signals is much different than governments which send the signals. As a result, the term we will use for response in the case of the private sector is *adjustment*. Presumably this term is understood, even though the dimensions of "adjustment" vary widely.

This workshop began with a discussion of *short- and long-run impacts of exchange rates* on trade volume, flows, trade relations, government policy and private sector adjustments. The relevance and impact of exchange rates on trading relations is often overlooked. The second session dealt with the issue of *alternative foreign-linked business investment arrangements* in background papers followed by specific examples from the livestock and fruit and vegetable sectors. The next session dealt directly with adjustment in other areas of the Mexican economy, including *reform of the small farm sector and developments in rail and truck transportation.* Then various forms of dispute resolution frameworks based upon the microenvironment, as opposed to formal legalistic or bureaucratic structures, were

reviewed. The purpose of this session was to analyze the role of *information* as a dispute reducing mechanism, and consider the feasibility of *transnational organizational structures*. The final session emphasized the prospects and implications of a Free Trade Area of the Americas (FTAA) for agriculture.

The Coordinating Committee believes that generation and distribution of the workshop proceedings is the primary contribution we can make to the process of achieving greater policy and trade harmony among signatories to the NAFTA. As a consequence we make a special effort to publish the proceedings as quickly as feasible. We also attempt to reach decision makers at all levels of the policy process, universities and libraries in our three countries. We invite readers to provide feedback on this process and the publication.

As we close the book on the 1999 workshop, planning for the next one has progressed to a program, presenters and location. The '00 workshop will consider what we have learned from a decade of trade agreements in North America under the title "Trade Liberalization in North America: A Report Card on Agriculture". It will be held in mid February in San Diego with participation by presenters, discussants and industry representatives from Mexico, the United States and Canada.

Section 1

Macroeconomic Forces Affecting Trade and Trade Relations

The objective of this section is to explore the impact of exchange rate changes on trade.