THE U.S.-MEXICO FREE TRADE AGREEMENT: THE MEXICAN PERSPECTIVE: DISCUSSION

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The prospects for North American Free Trade have received much attention in popular, as well as professional, circles in recent months. This invited paper session is one such instance. Segarra's paper provides an excellent overview of what an agreement may mean for Mexican agriculture and makes some strong assertions about economic and political outcomes in the United States and Mexico. This discussion focuses on what Segarra does not address, rather than attempting to counter or support what is contained in his paper. While most comments are directed toward Mexico, several important implications for the United States are discussed as well.

A fundamental question posed in this session was, why is Mexico now concerned about NAFTA and why the urgency? It is important to remember that NAFTA came about at the urging of Mexico and not the United States. Segarra attributes at least part of the answer to the decline of the Mexican economy during the early 1980s when oil prices declined, inflation increased to triple digit levels, and real incomes declined to place many people in poverty. In addition, one could also list the pressing need that Mexican President Salinas may feel to institutionalize his radical and sweeping economic and social reforms which have improved economic conditions significantly in recent years. The next Mexican president may not be as supportive of free trade, so it important to Salinas that an agreement be finalized before his tenure ends. Further reason could be found in the perception that NAFTA partners may have that economic integration will bind them together to confront a growing European trade bloc and an emerging Pacific Rim bloc. However, the problem for Mexico is much more pressing, socially, politically, and economically, than any of these arguments would suggest.

Mexico faces a demographic dilemma, precariously balanced between becoming a forceful economic power or continuing as a struggling developing nation. Mexico has a young, rapidly growing, but relatively poor population. With 90 million people in 1990 and growing at a rate of 2.2 percent per year, Mexico will have over 133 million people by the year 2010. Currently, 61 percent of the population is under the age of 25. Unemployment ranges from 15 to 18 percent nationwide, but is nearer 25 percent in the major urban centers of the country. While it may be argued that no one of these statistics alone poses a significant threat, taken together they represent a formidable obstacle to the development of a strong economy and political stability in the future. Coupled with this is Mexico's relatively low per capita income of $ 2,200 and the fact that 40 percent of the nation's wealth is concentrated among the upper ten percent of the population. Without broad-based income growth and redistribution and improved economic development, Mexico can expect not only continued economic stagnation, but also significant social and political upheaval by the end of this century. This demographic dilemma underlies the pressing economic reality faced by the current Mexican administration.

Segarra discusses the role of the "ejido" land tenure system and the problems resulting from socialized agricultural production and the lagging productivity of agriculture. However, the problem faced by the Government of Mexico is how to reform land tenure to increase productivity and maintain the integrity of the "ejido" system at the same time. To fully liberalize the import of food and agricultural products which compete with the "ejidatarios" could potentially displace over 800,000 of the 3.7 million subsistence farmers (Hinojosa and Robinson). Any major changes to displace farmers will certainly run counter to past policies which sought to stem the tide of rural-to-urban migration. This problem is further exacerbated by the fact that incomes of rural residents have historically remained low when compared to their urban counterparts. In 1990, it was estimated that rural incomes were only about ten percent of the urban level. While certainly this reflects the plight of the subsistence farmer, it poses a difficult situation for land reform.

Related to this issue is how to deal effectively with the "duality" of the Mexican agricultural economy, i.e., the disparity between the large, export

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oriented commercial farm and the small, less efficient "ejido." While "ejidos" account for about 54 percent of total land area in Mexico, the average "ejido" farm is about five hectares. This disparity may only increase as trade is liberalized and the "ejido" system is changed, resulting in further concentration of income at the upper end of the scale and detracting from the stated goal of fostering broad-based income growth throughout the economy. Changes in agricultural structure affect not only farmers but entire rural communities as well. Are the winners from freer trade willing to compensate those who lose? This question is of key importance to trade negotiators trying to design an acceptable transition scheme for implementing NAFTA.

Little was mentioned about the role that NAFTA may serve in setting the stage for additional economic integration throughout the Western Hemisphere. Based on recent U.S. action to stimulate economic integration in the Western Hemisphere through the Enterprise for the Americas Initiative, it appears that NAFTA is only the precursor of what will be an entire series of trade, investment, and debt reduction plans affecting Latin American nations. In fact, since mid-1990, the U.S. has signed trade and investment framework agreements with Bolivia, Colombia, Ecuador, Chile, Honduras, Costa Rica, Venezuela, El Salvador, and Peru. In addition, a similar framework agreement has been proposed with the 13 nation Caribbean Community. Is it probable that a Western Hemisphere trading bloc is emerging?

According to Drucker, that may be precisely what is occurring. Since the early 1960s, most nations have engaged in adversarial trade relationships which are designed to compete not on market share, but on the ability to drive the competition from the market altogether. As adversarial trade continues, what then may follow? To counter adversarial trade and ensure access to markets, it becomes necessary to establish strong trade relationships, best accomplished by signing reciprocal trade and investment agreements with neighboring countries. Following the development of reciprocal trade relationships, trade patterns are modified to reflect transnational realignment of trade and investment interests. *Reciprocity* and subsequent *realignment* will likely lead to the development of strong regional interests based on mutually advantageous trade and investment laws. These regional interests will lead to the formation of *regionalism*, fostering the development and growth of regional trading blocs. Although Europe and Eastern Asia show strong signs of taking these three steps, this process is particularly evident in the Western Hemisphere. Although NAFTA is important, it appears to be only the beginning of what could become a fully integrated economy throughout the region.

With the recent upturn in trade, many analysts seem to have forgotten that Mexico has the developing world's second largest external debt, valued at $94 billion in 1990. With about 44 percent of all export revenue used to service this debt, Mexico's economic well-being is closely tied to the ability to access international markets, especially the United States, which makes securing NAFTA, and with it, access to the largest market in the world, of key economic and political importance to Mexico. Because of this interdependence, Mexico has a vital stake in the level of U.S. interest rates and inflation, but more importantly, in the changes in purchasing power within the United States. In the future, Mexico's economic fortunes will ebb and flow more than ever before with those of the United States.

Segarra makes several assertions worthy of further discussion: (1) sustained income growth in Mexico is in the best interests of the United States; (2) substantial trade liberalization has already occurred in Mexico; and (3) political interests in the United States may be less supportive of passing a NAFTA than we have been led to believe.

Without a doubt, as incomes in Mexico increase, more food and basic agricultural products will be imported. Much of this increased trade will likely be with the United States. What will be required for this sustained income growth to occur? First, there is a need for broad-based economic development within Mexico. If incomes become more evenly distributed, the potential for the development of a large, middle income class is greater. Research by the Dallas Federal Reserve Bank indicated that through the 1970s, there was a strong propensity for the "trickle down" effect to occur in Mexico (Haslag et al.). The key question is whether or not those same economic relationships still hold.

Mexico has taken bold measures to liberalize trade. The maximum tariff rate has been reduced from almost 100 percent in 1985 to under 20 percent in 1990. Import licenses have been liberalized, although they still affect about 40 percent of all agricultural imports. Much progress has been made without a trade agreement. Why, then, work to secure a NAFTA? Most of the reforms instituted in Mexico since 1986 have been through executive decree. Those reforms can be reversed in the same way. NAFTA will assure that reforms are institutionalized and made a permanent part of the law of the land in Mexico. This stability is especially vital if Mexico hopes to attract foreign investment and maintain it over the long term.

In reality, however, completely free trade in agriculture may not be a reasonable expectation. The stalemate in the General Agreement on Tariffs and Trade (GATT) does not bode well for complete relaxation of all trade measures affecting agriculture. Recent public statements by GOM officials indicate a strong desire to be self-sufficient in corn production. Similar statements have been made about assuring protection for dry bean producers. Further, it seems unlikely that any nation will be willing to relinquish control over food safety, plant health, and animal health issues. The harmonization of phytosanitary and sanitary measures with Mexico may prove especially difficult. Past experience indicates that the tendency for both countries has been to institute protective measures first, then find scientific evidence to support their claims. It seems unlikely that NAFTA could reverse this trend, at least not in the near term.

Finally, much of the literature supports the contention that passage of a NAFTA will occur sooner, rather than later. Segarra reminds us that while NAFTA may be inevitable, it may not be as easy to sell politically in the United States as it once was. If this is so, why? First, the U.S. administration was surprised by the amount of opposition expressed toward favorable passage of the "fast track" authority. U.S. environmental and labor interests voiced strong opposition to NAFTA, even though or perhaps because neither area was explicitly going to be addressed in the negotiations. Before Congress would agree to the fast track, it required for the first time that the executive branch submit an environmental and labor plan indicating how these sensitive issues would be considered in NAFTA. Opposition from U.S. winter fruit and vegetable producers has continued to increase as the negotiations have progressed. At issue now is the length of time during which protective "snapback" duties would remain in place. The transition issue appears to be almost as politically important in the United States as in Mexico. Further support for Segarra's assertion is found in the likely action by the United States to effectively stall the negotiations until after the November 1992 election. This strategy would leave a six month "window of opportunity" during which the agreement could be completed (December 1992-May 1993). Since the "fast track" expires in June 1993, it will become increasingly important that progress be made early if the NAFTA is to be considered under current authority. To confound NAFTA with fast track renewal would certainly jeopardize successful completion of NAFTA. Despite the possible political fallout over the issue, Congress is still expected to approve NAFTA. Its approval may simply require more political "backscratching" than previously thought necessary.

In summary, Mexico is faced with a demographic dilemma which is pressing the need to secure a NAFTA and stimulate economic growth. To make an agreement salable at home and to minimize the effects of displacing farm labor, Mexico must develop an effective transition and compensation mechanism accounting for the duality of Mexican agriculture, especially the fragile "ejido" land tenure system. To counter the adversarial trade relationships which have developed throughout the world, NAFTA will likely set the pattern for additional economic integration throughout the Western Hemisphere. The importance of Mexico's developing as a strong potential market for U.S. agriculture is linked to Mexico's ability to manage external debt and orchestrate an effective means of assuring broad-based income growth throughout the economy. Also related is the importance that NAFTA could have in assuring foreign investors of a stable, secure economic and political environment. Once thought to be on a true "fast track" for approval, NAFTA has experienced more opposition than expected. Without a doubt there will be a NAFTA, but it probably will not take effect before early 1994.

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