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Historical changes are taking place in the Western Hemisphere. Four years ago, Canada and the United States began negotiating an agreement which created the world's largest free trade area. Today we see the possibility of free trade agreements with Mexico and other Latin American countries.

We are living in an era of dramatic change. We see it in Western Europe through the European Community, Eastern Europe, the Soviet Union, the Persian Gulf, and here at home in the Western Hemisphere, where traditional hemispheric attitudes and patterns of trade and investment are changing rapidly. Indeed, progressive trade liberalization is emerging as a hemispheric trend. Specifically, I will focus on change in the Western Hemisphere, including the reasons why the United States and Mexico have agreed to negotiate a free trade agreement, and President Bush's Enterprise for the Americas Initiative.

U.S.-Mexico Free Trade Agreement Negotiations

Four years ago—when we began negotiating the Canada-U.S. Free Trade Agreement—the idea of a U.S.-Mexico free trade agreement was inconceivable for either country. Today, it makes excellent sense for both Mexico and the United States. Recently, the unthinkable has become not merely thinkable, but likely. There are three specific reasons why a U.S.-Mexico free trade agreement makes good sense for both countries. First, a free trade agreement would contribute to long term economic prosperity, stability and growth in Mexico. An economically prosperous Mexico is important because the current lack of economic opportunity is at the root of such bilateral problems as illegal immigration, drugs and pollution.

Second, a U.S.-Mexico Free Trade Agreement would advance the cause of economic reform in Latin America. The eyes of the region are on Mexico, which is a leader among the Latin American nations. Its success could serve as a model for market-oriented policies and reforms elsewhere in the hemisphere. Finally, a U.S.-Mexico Free Trade Agreement makes good business sense, just as the Canada-U.S. Free Trade

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Agreement does. The United States sees major trade and investment opportunities in Mexico, and we want assured access to that market.

Mexico is our third largest trading partner, with two-way bilateral trade totalling $52 billion in 1989. Mexico is also our third largest export market, with U.S. sales of goods and services of $30 billion in 1989. The United States supplies about seventy percent of Mexico's imports. Mexico is one of our fastest growing export markets. U.S. exports have grown by fifty percent in the last two years. Mexico is one of our best customers, buying $295.00 worth of U.S. merchandise exports per capita, which compares with $3,150 for Canada and $266.00 for the European Community. By contrast, Eastern Europe takes only $9.00 of U.S. exports per capita.

A free trade agreement with Mexico, along with the Canada-U.S. Free Trade Agreement, would position the United States in the middle of a North American market with a combined output of $6 trillion, twenty-five percent larger than the European Community's $4.8 trillion market. The North American market has 360 million consumers, compared to 320 million in the European Community and 122 million in Japan. North America is not only important because of the economic opportunities, but also because we live here—this is our home.

Impetus for Negotiations

You may note that some of these basic facts were as true four years ago as they are today. So what has changed? The answer is Mexico, itself. In 1986, in a decision the full import of which we did not recognize at the time, Mexico joined the General Agreement on Tariffs and Trade (GATT) and began a process of reform which continues today. President Salinas, building on the foundation laid by President de la Madrid, has implemented dramatic economic reforms. Included among these are:

(1) *Tariffs* were reduced to a maximum of twenty percent *ad valorem*, well below the fifty percent maximum of Mexico's GATT accession agreement. Many tariffs used to be as high as one-hundred percent. Today, on a trade weighted basis, Mexico's average tariff on imports from the United States is about ten percent—the same as Canada before the Free Trade Agreement reductions were made;

(2) *Import licenses*, which were universal as recently as 1983, have been eliminated on all but about 230 items, or about twenty percent of the value of U.S. exports to Mexico;

(3) *Investment regulations* were revamped in May 1989 to create a business climate more conducive to foreign direct investment;

(4) *Intellectual property rights* protection is to be enhanced. Mexico understands that foreign investors will not seriously consider moving into Mexico unless their patents, trademarks and copyrights are secure;

(5) *Privatization* of government owned enterprises has been completed

or announced in many sectors. Of the 1,155 state-owned enterprises in 1982, 801 have been authorized for divestment, and 619 actually have been privatized. Banking, airlines, copper mining, telecommunications, insurance and steel are some of the sectors and industries being reprivatized; and

(6) *External debt restructuring* is being carried out in responsible ways. For example, Mexico's increased oil revenues are being used in equal shares to pay down the PEMEX debt and to finance current government expenditures.

These reforms, and others in the offing, when coupled with and solidified in a free trade agreement, can be a powerful engine for economic growth, increased trade and investment, more jobs, lower prices, and greater competitiveness at home and abroad.

Indeed, the reforms enacted to date already are bearing fruit. The general economic climate in Mexico has improved substantially:

(1) Economic growth was 3% in 1988 and 1989;
(2) Inflation was reduced from 160% in 1987, to 30% in 1990;
(3) Foreign direct investments approved by the Government of Mexico increased 400% in the period January to May 1990, over the same period in 1989; and
(4) U.S. merchandise exports almost doubled from $15 billion in 1987 to $25 billion in 1989.

These are some of the considerations which lead President Bush to respond favorably to Mexican President Carlos Salinas de Gortari's request of August 21, 1990, that the United States and Mexico enter into negotiations for a free trade agreement.

Goals of Free Trade Agreement Negotiations

The U.S. and Mexican goals in the forthcoming Free Trade Agreement negotiations are likely to be similar to those the United States and Canada had. Broadly stated, these are: greater market access; more secure market access; and allowing market forces to work. In that regard, U.S. and Mexican negotiators will no doubt want to examine the provisions of the Canada-U.S. Free Trade Agreement and the results of the Uruguay Round of multilateral negotiations, to see what issues need to be addressed in a U.S.-Mexico Free Trade Agreement negotiation.

Various members of the U.S. business community already have suggested that our specific negotiating goals should include:

(1) Tariff elimination;
(2) Reduction and elimination of nontariff barriers;
(3) An investment agreement that will create a stable and predictable business environment essential to attracting and holding major capital investment—both domestic and foreign;
(4) Increased intellectual property rights protection—an issue which remains a significant problem for U.S. business in Mexico;

(5) Increased access to each other's government procurement markets;
(6) A services agreement which enhances export opportunities;
(7) Improved customs procedures and rules-of-origin to facilitate the flow of goods across the border;
(8) Improved border crossing procedures to facilitate the movement of temporary business travelers;
(9) Harmonization of standards (—) related measures and procedures to increase trading opportunities, to promote greater manufacturing efficiency, and to preclude their being used as trade barriers; and
(10) An effective dispute settlement mechanism that will increase certainty and predictability for exporters.

These are some of the goals business and industry already have told us they would like to see the two governments pursue. Their suggestions closely track the provisions of the Canada-U.S. Free Trade Agreement. We are hearing, however, that we should set our sights higher and accomplish even more.

NEGOTIATING PROCESS AND TIMETABLE

President Bush, having received and agreed with Mexico's request to enter into free trade agreement negotiations, has taken the next step of notifying Congress of his intent to enter into such negotiations under the "fast track" procedures. That notification, on September 25, 1990, began a process of congressional and private sector consultations. Congress has sixty legislative days in which to disapprove the President's proposal, or to allow the negotiations to go forward under the fast track procedures. The fast track is important because it means that Congress must approve or disapprove any resulting agreement by a single up or down vote. Amendments are not permitted.

Actual negotiations are expected to begin in June 1991. Both countries want to conclude the negotiations by the end of the year. This is an ambitious timetable, but one which appears realistic. Issues which were controversial in the Canada-U.S. Free Trade Agreement negotiations, such as investment, are less so with Mexico. Indeed, Mexico appears prepared to go farther, faster on some free trade issues than Canada was. The United States foresees notification of a completed free trade agreement to Congress early in 1992, with Congressional approval that year. We expect January 1, 1993 to be the date on which a U.S.-Mexico Free Trade Agreement would enter into force.

CANADIAN INTEREST IN A MEXICO FREE TRADE AGREEMENT

Prime Minister Mulroney has asked Presidents Bush and Salinas to include Canada as a participant in negotiation of a North American Free Trade Agreement (NAFTA), rather than the United States and Mexico negotiating a bilateral agreement. All three governments have been studying the possibilities over the past few months and are expected to reach decisions soon. Regardless of the modalities adopted, there are several factors which should be kept in mind concerning future business plans and marketing strategies:

(1) Mexico is far behind the United States and Canada in economic development. Its gross national product (GNP) is four percent of ours and forty percent of Canada's;
(2) Mexico's population is 85 million; Canada is 26 million; and the United States is 250 million. By the year 2000, the U.S. and Canadian populations will have increased only slightly given current demographics, but Mexico is expected to have grown from its current level of 85 million to 105 million consumers;
(3) There is unprecedented confidence in the Mexican business community that they can survive and prosper in international competition;
(4) Mexico already is a very good market for the United States, but largely has been overlooked by Canadian business. Total Canada-Mexico bilateral trade is only about $2 billion annually, compared to U.S.-Mexico bilateral trade of $52 billion in 1989; and
(5) Canada and the United States have similar economies and levels of industrial development. The United States and Mexico have complementary economies—exemplified by the resounding success of the maquiladora program; hence, it is not unreasonable to expect that Canada and Mexico could find mutual benefits as well.

Business people should be looking seriously at the growing Mexican market of 85 million consumers eager to raise their standard of living.

Enterprise for the Americas

On June 27, 1990, President Bush announced his Enterprise for the Americas Initiative (EAI) to "encourage growth in the Americas" through initiatives in the areas of trade, investment and debt. The EAI is considered to be the most important foreign economic policy initiative toward Latin America since President Kennedy's Alliance for Progress and President Roosevelt's Good Neighbor Policy.

A bilateral free trade agreement with Mexico, or a trilateral agreement with Mexico and Canada, would be an important milestone on the road towards the President's vision of an eventual hemispheric-wide free trade zone. This vision has captured the imaginations of the hemisphere's government and business leaders. "The Trade Initiative" has as its ultimate goal the negotiation of a comprehensive Free Trade Agreement (FTA) with Latin America. Milestones toward that goal would be the negotiation of bilateral framework agreements.

Since the EAI was announced, framework agreements have been signed with Chile, Columbia, Costa Rica, Ecuador and Honduras. Such agreements provide for step-by-step elimination of specific trade barriers and the resolution of irritants with individual countries. Regional reforms and sub-regional integration will be encouraged. This will enable us to work for the broadest, most comprehensive agreements possible. Argentina, Brazil, Uruguay and Paraguay, for example, have announced that they have set a goal of December 31, 1994, for the establishment of a sub-regional common market.

The United States would like to negotiate free trade agreements with groups of countries, such as those listed above. Finally, the resulting FTAs could be folded together into a single Western Hemisphere Free Trade Area. The above four countries have already indicated their desire to proceed on that basis, as have others. Regional institutions also play a key role under The Trade Initiative. The Organization of American States (OAS) and the Economic Commission for Latin America and the Caribbean (ECLAC), for example, are undertaking basic reassessments of their programs to achieve economic restructuring and cooperation.

The second component of the EAI is "The Investment Initiative," which has as its goal the realization of the economic potential of the region through improvement of the business environment necessary to attract and hold long term capital investment. A series of bilateral investment treaties would be milestones on the journey towards a hemispheric-wide FTA.

The Inter-American Development Bank (IDB) is playing a positive role. The IDB has created a new lending program for countries that liberalize their investment regimes. In a related move, the United States has proposed that the IDB create an investment fund of $1.5 billion to assist countries in carrying out privatization programs over the next five years.

The third component is "The Debt Initiative," which provides support for debt reduction in Latin America, thereby freeing some of the regions resources to be used for further economic development. This is important because U.S.-Latin American economic relations are substantial and growing: two-way trade totals $106 billion; U.S. direct investment in the region is over $61 billion; and U.S. creditors are owed over $70 billion.

The Enterprise is particularly timely because it reinforces the strong movement toward economic reform and free-market policies now prevalent throughout Latin America. Such changes could create substantial new trade and investment opportunities. It is important to emphasize that the EAI is a long-term proposal—there are no "quick fixes." This is a hemispheric proposal that rests on a joint commitment by all the countries in the Western Hemisphere to collaborate in reaching the long-term goal of hemispheric free trade.

We do not seek to create an inward-looking trade bloc in the Western Hemisphere. Rather, we seek an expanding network of trade-creating agreements, each of which can be viewed as a milestone on the road toward global free trade.

Conclusion

This is an exciting time to be involved in trade in the Western Hemisphere. The Canada-U.S. Free Trade Agreement is a landmark achievement which is guiding the way for others toward growth through free trade and market-oriented policies and programs. As one FTA takes root and its members prosper, the example provides the momentum and encourages others to follow.

Many Canadians wish that the question of a free trade agreement with Mexico could have waited a few years. After all, we are still adjusting to the opportunities created by the Canada-U.S. Free Trade Agreement. For the United States, we see the changes taking place in Mexico, and their desire for a free trade agreement, as an historic window of opportunity, one that economics, geography, and culture compel us to pursue.