THE PROPOSED UNITED STATES-MEXICO-CANADA NORTH AMERICAN FREE TRADE AGREEMENT: THE MEXICAN PERSPECTIVE

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Since 1985, the United States and Mexico have had a number of bilateral agreements addressing important economic and political issues. In June of 1990, President George Bush and President Carlos Salinas de Gortari formally agreed that the development of a comprehensive United States-Mexico Free Trade Agreement (FTA), aimed at reducing in the short-run and eliminating in the long-run tariff and non-tariff trade barriers, would be the best way to broaden and improve bilateral economic relations and strengthen the competitiveness of both countries. In August 1990, under the recommendation of both countries' trade representatives, both Presidents agreed to begin trade negotiations for a United States-Mexico FTA. Subsequently, Canada, with whom the United States signed an FTA in 1988, expressed interest in joining the United States-Mexico FTA negotiations in September 1990. In February 1991, the governments of the United States, Mexico, and Canada announced the desire to develop a North American Free Trade Agreement (NAFTA). In May 1991, an extension of "fast track" authority to continue negotiations of the proposed NAFTA through July 1993 was approved by Congress in the United States; formal negotiations for NAFTA began on June 12, 1991.

As of November 1991, after several meetings among trade representatives of the three nations, six negotiation areas have been established and eighteen working groups have been formed. The negotiation areas are: (1) Market access; working groups in this area include tariff and non-tariff trade barriers, rules of origin, governmental purchases, agriculture, the automobile industry, and other industries such as textiles and petrochemicals. (2) Trade rules; working groups in this area include snap-back provisions; antidumping, subsidies and compensatory taxes; and standards. (3) Services; working groups include general principles, financial, insurance, transportation, telecommunications, and other services. (4) Investment. (5) Intellectual property. (6) Dispute settlement. The last three areas include only one working group each.

Presidents Bush and Salinas de Gortari referred to the initial proposal of the United States-Mexico FTA as a "powerful engine for economic growth which would create new jobs, stimulate economic activity and open new markets" (Wagenhim). Preliminary impact studies conducted by the United States International Trade Commission (USITC), Almon, Peat Marwick, Sobarzo, and Hinojosa-Ojeda et al. indicate that a United States-Mexico FTA would likely benefit both countries. United States Trade Representative Carla Hills has pointed out that "all players would win" in the proposed NAFTA among the United States, Mexico, and Canada (Auerbach). However, there is concern among special interest groups in the United States, Canada, and Mexico with respect to the impacts that NAFTA could have in certain economic sectors and industries. In particular, Mead, Faux and Spriggs, Faux and Rothstein, and Prestowitz et al. concede that NAFTA can be economically desirable, but they challenge the assumption that the huge differences in salaries and overall living standards among the three countries will lead to a mutually beneficial division of labor. They point out that the agreement could shift more high-value work to Mexico than it could create in the United States.

This paper examines both the Mexican position in the NAFTA negotiations and the possible implications of NAFTA for the Mexican economy, particularly for the Mexican agricultural sector. The paper is organized as follows. The overall economic environment within which the Mexican economy has operated in the last few years is examined first. The Mexican agricultural sector and the government's role in the sector are looked at next. Then the United States-Mexico-Canada trade relations and the proposed NAFTA are examined. In the closing sections, some of the issues surrounding the NAFTA negotiations are outlined, and the possible implications for

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the Mexican economy, and for the Mexican agricultural sector in particular, are explored.

THE GENERAL ECONOMY

The year of 1982 was the milestone year in which Mexican views with respect to international relations and international interdependence began to change. By the end of 1982, the combined impacts of a large public deficit and the lack of foreign financing lead to a severe increase in inflationary pressures in the Mexican economy. The inflation rate in 1982 increased to almost 100 percent from under 30 percent in 1981. Additionally, the Mexican economy was highly regulated, and economic recovery was felt to be out of reach. Shortly after the 1982 debt crisis, Mexican government officials, under the administration of President Miguel de la Madrid, embarked on a major policy effort called "economic realism" to correct a wide range of macroeconomic and structural imbalances present in the Mexican economy.

That program called for strengthening fiscal policy and liberalizing exchange and trade controls. Internal and external imbalances were reduced, and the economy began to recover by the end of 1984. However, it became evident in early 1985 that the economic recovery was not being sustained. Furthermore, with the September 1985 earthquake in Mexico City and the sharp drop of oil prices in early 1986, the fiscal and external positions of the Mexican economy worsened. By mid-1986 a new economic recovery program, "increased economic realism," backed by the international community, was adopted. Under this program, Mexican foreign debt was restructured, fiscal and monetary policies were tightened, the exchange rate was sharply depreciated, and increased efforts were made to both liberalize trade and continue privatizing public sector enterprises. These policies along with a slight rise in oil prices contributed to moderate growth for Mexico in 1987.

Improvement of the Mexican external position in 1987 was accompanied by a marked increase in inflation. The combined effects of high levels of nominal interest rates, increased pressures from labor groups for wage increases, and the crash of the Mexican stock market in October 1987 resulted in a 159 percent inflation rate for that year. Thus, in December of 1987, a program called the "economic solidarity pact," aimed at strengthening the financial and structural policies, and which incorporated a price-wedge pact among labor, business, and government, was adopted. This program, which was extended through the end of 1988, led to a generalized freeze on wages, prices, and the exchange rate (after a small adjustment in February 1988). These measures contributed to a reduction in the inflation rate to 52 percent by the end of 1988. However, high levels of uncertainty with respect to the sustainability of such economic performance were still present in the economy. High nominal interest rates, moderate growth of the economy, about 1.4 percent growth in real Gross Domestic Product (GDP), and a trade balance of almost $2 billion were recorded in 1988.

At the beginning of President Carlos Salinas de Gortari's administration in December 1988, a comprehensive strategy aimed at achieving medium-term economic growth, with price stability and a sustainable balance of payments, was adopted. A key element of this strategy for economic recovery was finding a medium-term solution to the foreign debt burden on the economy. After the adoption of alternative domestic policies and successful negotiations to restructure the foreign debt, the results were encouraging. In 1989 real GDP grew 3.1 percent, significant increases in private investment and domestic savings were recorded, inflation was reduced to under 20 percent, the trade balance was reduced to -$0.6 billion, and the overall government deficit was reduced to 6 percent of GDP in 1989. In 1990, real GDP grew 3.9 percent, inflation was slightly below 30 percent, and the government had a deficit of 3.5 percent of GDP. Inflation for the first eleven months of 1991 was 13.3 percent, with the overall 1991 inflation rate expected to be close to the 16 percent goal set by the Mexican government, real GDP growth in 1991 is expected to be approximately 4.5 percent, and the government deficit is expected to be under 2 percent of GDP. These developments resulted from a broad range of structural reforms aimed at improving the private sector's performance and reducing government intervention in the economy.

Overall, the current economic environment in Mexico is much better than it was five or six years ago when there were serious concerns that there might be a social uprising. As Kalter and Khor point out, some of the key elements in Mexico's rebound have been the opening of the trade system, divesting public sector enterprises, tax reform, financial liberalization, liberalization of foreign direct investment, and deregulation of economic activities. Past government actions have included a significant decrease of import licensing requirements, a significant reduction of import tariffs, a 70 percent reduction in public sector enterprises, privatization of the commercial banking system, tax reform, liberalization of foreign investment and foreign ownership regulations, and industrial deregulation in transportation, communication, petrochemical, fisheries, and other industries.

Trade diversification efforts, along with some of the trade liberalization policies adopted by the Mexican government, have induced significant changes in the composition of Mexican exports. In 1982, 75 percent of Mexican exports were oil-related and only 14 percent were from the manufacturing sector. In 1989, 34 percent of the Mexican exports were oil-related and 55 percent were from the manufacturing sector.

Currently, the reforms already in place are being strengthened, and additional government reforms are being adopted to further deregulate the Mexican economy and to create a stable and secure economic environment which should induce increased foreign investment. The most recent of these government actions includes the November 7, 1991, proposal by President Salinas de Gortari to the Mexican Congress to amend Article 27 of the Mexican Constitution which deals with the regulation of land ownership (the "ejido" system) in rural Mexico.

MEXICAN AGRICULTURE AND THE ROLE OF THE GOVERNMENT

The government of Mexico has a long history of intervention in the general economy and in the agricultural sector in particular. This intervention has increased during the last few decades, with the government's attempts to accelerate the country's development and distribute its fruits in a more equitable manner. In the agricultural sector, intervention took the form of increased public investment, subsidies for both production and consumption of agricultural commodities, and regulation of market forces through direct participation in marketing.

Official policies toward the development of the agricultural sector resulted in impressive rates of growth during the 1950-65 period, when the agricultural sector grew at an average annual rate of 4.23 percent. The next fifteen year period (1965-80) had a slowdown, with an average annual rate of growth of 2.44 percent (Nacional Financiera).

In 1980, President Jose Lopez Portillo's administration announced the Sistema Alimentario Mexicano (SAM), an ambitious program which was to make Mexico self-sufficient in corn and dry beans by 1982, and in other basic crops by 1985. The large injection of subsidies into the agricultural sector that the program required were to be financed with Mexico's oil revenues. Self-sufficiency in the main agricultural commodities was achieved in 1981, at a great public cost, and good weather played an important part (Segarra). Fertilizer subsidies increased in real terms by 116 percent between 1980 and 1981. Also, the 1980-1982 period showed an accelerated growth in credit for agriculture that was accompanied by an increase in delinquent debts, crop insurance payments, and non-viable projects (Montanes). Additionally, in 1981, total transfers to the Compania Nacional de Subsistencias Populares (CONASUPO), the agricultural marketing regulatory agency, were greater than its total revenues, for the first time in history. This would happen again during the 1984-1986 period. In late 1982 the SAM program was scrapped as a result of the drop in oil prices and the subsequent financial crisis into which the nation fell. This crisis, together with the International Monetary Fund's conditions on emergency loans, persuaded President Miguel de la Madrid's new government to realize that the Mexican economy could no longer operate on the basis of subsidies and highly protected and inefficient industrial and agricultural sectors. In 1982, the government's deficit had reached a record 16.9 percent of GDP and total transfers were 7.98 percent of GDP.

The new administration's policy of "economic realism" was to be measured initially by a reduction of the fiscal deficit, which by 1984 was down to 8.5 percent of GDP. This was achieved by reductions in federal spending (total programmable expenditures of the public sector were reduced in real terms by 8.9 percent in 1982 and by 15.67 percent in 1983), increases in internal public debt, increased taxation, and increases in the prices of goods and services provided by the public sector. The price index of these goods, excluding petroleum products, rose 37 percent more than the consumer price index (CPI) during the 1981-1987 period. Reductions in subsidies to agricultural production also took place. For instance, subsidies to soybean and sorghum production were eliminated in November, 1984. Increased input costs and strictly controlled consumer prices had a devastating effect on the agricultural sector.

The drop in oil prices in 1986 pushed Mexico into a new financial crisis, and the fiscal deficit reached 16 percent of GDP, almost as high as in 1982. Total transfers continued to decrease and total programmable expenditures of the public sector dropped to 6.68 percent relative to 1985 levels. The combination of the rise in the deficit and the drop in programmable spending clearly indicates the dramatic reduction of government revenue in that year. In 1987 the fiscal deficit increased slightly, reaching 16.1 percent of GDP, as programmable public spending diminished another 4.69 percent. Subsidies to consumption (mainly wheat and corn) were reduced during 1986. Finally, interest rates rose, squeezing consumer credit, as the government scrambled for funds to keep itself solvent.

On July 21, 1986, Mexico signed the General Agreement on Tariffs and Trade (GATT) Codes on

Standards, Licensing, Customs Valuation and Subsidies, and on August 26, 1986, Mexico became the 92nd member of GATT. The process of "increased economic realism" achieved greater momentum with this event, as import restrictions were gradually removed.

Although it was originally intended that all non-tariff restrictions to trade would be eliminated by the end of 1988, this process was completed one year early. Two interrelated factors contributed to this. Inflation had become unacceptably high, officially estimated at 159 percent in 1987, and it was feared that were it not drastically reduced it would get out of control. Additionally, 1988 was an election year and the government felt that if the incumbent party was to win the elections it had to reduce inflation to protect consumers' purchasing power. Hence, the "economic solidarity pact" was announced in December of 1987. This pact required that all sectors of the economy moderate their demands for price and wage increases. To facilitate the pact's success, the process of trade liberalization was accelerated.

Almost free imports of agricultural commodities helped protect consumers' purchasing power, but severely punished Mexican agricultural producers, especially those for whom the domestic price was higher than international prices. For example, in the case of the livestock industry, imports of low priced offals supplied cheap substitutes for domestic livestock commodities, reducing demand for all livestock products regardless of their international competitiveness. The administration was willing to sacrifice some industries to curb inflation. Between 1980 and 1990, the average annual growth rate of Mexican agricultural production was 0.84 percent.

By the end of President Miguel de la Madrid's administration, most agricultural commodity subsidies were directed at consumers, and particularly at the poorest consumers. A highly publicized one was that given to the price of corn tortillas in 1988. Some subsidization of consumption and agricultural production, mainly corn and dry beans, currently remains, because some inputs, such as credit, fertilizers, and seeds are still being subsidized. The tendency, however, has been to reduce these transfers and to target only the poorest sectors, as President Carlos Salinas de Gortari's administration feels that these social policies can no longer be justified. For example, in 1990 the electricity rate for agricultural use increased 130 percent, and some irrigation districts are no longer under government administration. The current administration feels that increased allocative efficiency in the overall economy, and in the agricultural sector in particular, along with minimal government intervention is the key for the future growth and development of the Mexican economy.

The overall approach followed by the government in the last few years has been that of becoming a facilitator for economic activity rather than an active participant. The Mexican government has figured that "a dose of reality" is always good and that, as the Mexican saying goes, "no hay mal que por bien no venga" (there is no bad thing that would not bring some good along with it).

UNITED STATES-MEXICO-CANADA TRADE RELATIONS AND THE NORTH AMERICAN FREE TRADE AGREEMENT

Approval of the proposed NAFTA among the United States, Canada, and Mexico represents an opportunity to create the largest commercial block in the world, with approximately 360 million people and a combined annual GDP around $6 trillion. NAFTA would reduce and eventually eliminate tariff and non-tariff trade barriers among the three countries and would increase annual trilateral trade above the current $230 billion. An important component of the proposed NAFTA is agriculture. Even though agriculture represents a small part of GDP in the three countries (about 3 percent in the United States, 9 percent in Mexico, and 3.5 percent in Canada), the importance of the agricultural sector is relevant not only because of the key role it plays in providing food and fiber, but because of the fixed nature of investments in the sector as well as its role as a net creator of wealth. Strictly speaking, primary sectors which include agriculture and extractive industries are net creators of wealth, and most, if not all, other economic sectors transform and/or add value to the commodities either created in agriculture or directly extracted from nature.

There are many similarities and differences among the United States, Canada, and Mexico. Similarities between the United States and Canada abound, but differences between the United States and Mexico, and between Canada and Mexico are striking. The Mexican economy is about 40 percent of the size of the Canadian economy and only 4 percent the size of the American economy. Mexico's population is 3.2 times larger than Canada's and about one third of the United States's. Per capita income in Mexico is approximately 11 percent of that of the American and Canadian populations. Hourly minimum wages are 8 times higher in the United States and over 6 times higher in Canada compared to Mexico. Relative population in the agricultural sector in Mexico is over 8.5 times higher than that in the American agricultural sector and over 7 times higher than that in the Canadian agricultural sector. Total arable land in Mexico is about 12 percent of that in the United States and about 56 percent of that in Canada. Mexico has 1.7 million more farms than the United States and more than 13.5 times more farms than Canada. The average size of farms in the United States and Canada is 4 and 4.7 times larger, respectively, than the average size of farms in Mexico.

Bilateral trade between Mexico and the United States is quite significant from the Mexican point of view. The United States is the destination of almost 70 percent of total Mexican exports and the origin of about 70 percent of total Mexican imports. Also, about 95 percent of Mexico's agricultural exports go to the United States, while 75 percent of Mexico's agricultural imports come from the United States.

From the United States' point of view, trade with Mexico is not as significant, but Mexico is still the third largest trading partner of the United States, after Canada and Japan. Mexico is the destination of about 7 percent of total American exports and the origin of close to 6 percent of total American imports. Also, close to 7 percent of American agricultural exports go to Mexico and 10 percent of American agricultural imports come from Mexico.

Since Mexico joined GATT in 1986, total American exports to Mexico have more than doubled, and the rate of growth of American exports to Mexico has been twice the rate of growth of American exports elsewhere (the average annual rate of growth of agricultural bilateral trade between Mexico and the United States between 1982 and 1990 was 11.6 percent). Furthermore, the maquiladora industry along the American-Mexican border has shown significant growth, at 18.8 percent per year during the 1982-1989 period (CIEMEX-WEFA), and has proven to be an important contributor to economic activity on both sides of the border (M. Ray Perryman Consultants, Inc.). Also, it is estimated that for each dollar of growth in Mexico, 15 cents are spent on American goods and services (Dornbusch). It is important to note that the Mexican economy has become increasingly dependent on trade. In 1989, total exports and imports as a percentage of GDP represented, 16.3 and 15.1 percent, respectively.

Bilateral trade between Mexico and Canada is small when compared to either Mexican-American trade or American-Canadian trade. For example, trade for all products between Mexico and Canada in 1989 was close to $2 billion, compared to close to $52 billion trade between Mexico and the United States. In 1989, Canada was a net importer with Mexico. Canada exported to Mexico $524 million and imported over $1.4 billion from Mexico. Approximately 25 percent of Canada's exports to Mexico in 1989 were of agricultural origin, but less than 10 percent of Canada's imports from Mexico were of agricultural origin.

The main objective of an FTA is that of reducing or eliminating tariff and non-tariff barriers and other inefficiencies which impede or affect trade among two or more countries. Much has been said about the justification for, or the inefficiencies of FTAs among two or more countries, in terms of the trade diversion or trade creation effects of such agreements (Viner). Viner argued that the reduction of trade barriers between partner countries would increase bilateral trade flows, and thus induce trade creation which in turn would allow the increase and the promotion of economic efficiency and growth. FTAs, however, can also induce trade diversion from third countries, and thus impose global welfare losses.

It has been stated that FTAs are being used as a substitute for more comprehensive trade liberalization agreements among many countries, such as GATT (Schott). However, the inflexibilities exhibited by various countries and groups of countries participating in the current GATT negotiations have induced several countries to find "second best alternatives." It should be noted that the theory of customs unions deals with suboptimal situations such as FTAs, between two or more countries, that are less comprehensive than GATT. The way particular countries see this issue is: a "good FTA" that follows GATT rules and regulations between two or more countries is better than no agreement at all. The 1988 United States-Canada FTA and the 1991 Mexico-Chile FTA are evidence of this position.

A key element determining the relevance of the NAFTA, from the Mexican point of view and with respect to agriculture in particular, is the complementarity of the current trade between the United States and Mexico, and between Canada and Mexico. Vollrath's (1991a) relative trade advantage measure, which evaluates how well a country's particular commodity competes for resources with other sectors domestically and how well it competes globally, shows that the United States and Canada have had a relative trade advantage over Mexico on dairy and dairy products, coarse grains, wheat, oilseeds, and since 1981, on meats and livestock products (Vollrath 1991b; Vollrath and Scott). Also, the same measure shows that Mexico has a clear relative trade advantage over both the United States and Canada on fruits and vegetables, and coffee, cocoa, tea, and spices (Vollrath 1991b; Vollrath and Scott).

In addition, Vollrath's (1991a) overall complementarity measure, which relates trade advantages and disadvantages between two nations for a group of commodities shows that, based on fourteen agricultural subsectors, agricultural bilateral trade between the United States and Mexico is complementary and that agricultural bilateral trade between the United States and Canada is competitive (Vollrath 1991b; Vollrath and Scott). Thus, given the relative size of Mexican trade with the United States, the direct agricultural trade complementarity between Mexico and the United States, and the indirect agricultural trade complementarity between Mexico and Canada, NAFTA would be a trade creating, rather than a trade distorting, mechanism.

Recent discussions on the implications of NAFTA for different agricultural subsectors point out that because of the complementarity of the United States' and Canada's agricultural trade with Mexico, trilateral agricultural trade is expected to increase in the short run (U.S.-Mexico Free Trade Agreement: Expanding Agricultural Trade). In the long run, as structural changes are internalized in the agricultural sectors of the three countries, some degree of specialization and possibly some increased competition could be expected to occur in certain agricultural subsectors. Thus, NAFTA is expected to create trade with minimal or no impacts on trade diversion, and would induce increased economic (price, allocative and technical) efficiency (Dornbusch). This is of importance to the Mexican economy and the Mexican agricultural sector in particular because the Mexican government feels that the way to improve the current low productivity of the Mexican agricultural sector is through increased competition.

The Mexican government realizes that given the relative trade of the United States and Canada with Mexico, minimal or no changes could be expected to occur with respect to some of the current domestic agricultural policies in the United States and Canada with NAFTA. But the Mexican government hopes that NAFTA could be used to further induce long-term structural changes in the Mexican economy and in the agricultural sector in particular. That is, the Mexican government does not see the approval of the NAFTA as "the" solution to the problems of the Mexican economy, but as an important factor which will, in the long run, complement the Mexican government's overall strategy to induce future economic growth and economic stability. Although significant structural changes have already been proposed and implemented, the core of the changes and the redefinition of the "rules of the game" as Mexico prepares to formally integrate itself into the world economy will begin once NAFTA is approved. As Shwedel points out, [In Mexico, the] "Ways of doing business will have to be changed, power structures altered and the market allowed to work. Compared with this, the [NAFTA] negotiations with the United States [and Canada] will be easy" (p. 19).

ISSUES SURROUNDING THE NAFTA NEGOTIATIONS AND MEXICAN EXPECTATIONS FROM A NAFTA

Ever since the possibility of an FTA between Mexico and the United States came about, and now with the proposed NAFTA, several issues and/or concerns directly or indirectly linked to the agreement have arisen. I classify such issues in two categories: economic adjustment issues and global welfare issues. Economic adjustment issues are those which are directly linked or which have to be addressed if NAFTA is to be approved. These issues include rules of origin, snap-back provisions, dispute settlement procedures, market access, phase-in periods and other issues currently being addressed in the NAFTA negotiations. Global welfare issues are those which, in my view, are indirectly related to the approval of NAFTA, including environmental, health, safety, human rights, and other issues.

There is no doubt that economic adjustment issues like the ones pointed out above and others on the negotiating table will have to be properly addressed if NAFTA is approved. With respect to the global welfare issues, I believe that both the Mexican government and Mexican society realize the importance of addressing such issues and the role that they play with respect to the future of Mexico.

I also believe that the integrity of the conservation and/or preservation of natural and human resources, as well as safety and health regulations, will not be compromised by NAFTA in Mexico, and that Mexico does not expect either the United States or Canada to compromise the integrity of their resources or their standards with the approval of NAFTA. Furthermore, in response to global welfare concerns initially expressed by Senator Bentsen, and by Representatives Rostenkowski and Gephardt, when the extension of the fast track authority was being considered, they are being internalized in the negotiations by the Mexican negotiating team, although they are not explicitly included in the NAFTA negotiations. Mexican leaders realize that the better and the earlier they address these global welfare issues, the sooner the NAFTA negotiations can move forward.

We must keep in mind, however, that the efficacy of the efforts and the priority assigned to global welfare issues are a function of economic growth, and that environmentally protective policies can be best implemented under a healthy, growing economy. It is not surprising that the most developed economies happen to be the most environmentally conscious. The Mexican government is and will continue to emphasize implementing and updating environmentally protective measures. President Salinas de Gortari's administration has shown a decisive commitment to a cleaner environment. Recently completed and on-going environmental assessment studies along the American-Mexican border are being conducted to come up with strategic planning efforts which will ensure the preservation of the integrity of the environment on the border (Environmental Protection Agency and Secretaria de Desarrollo Urbano y Ecologia).

Between 1989 and early 1991, President Salinas de Gortari's administration increased the budget of the Secretaria de Desarrollo Urbano y Ecologia (SEDUE), Mexico's equivalent of the Environmental Protection Agency, more than 800 percent and shut down 1,062 polluting industrial plants, permanently closing 82, including Latin America's largest oil refinery in Mexico City, which employed over 5,000 people. Other measures, which include the gradual elimination of leaded gasoline production and the relocation of 24 environmentally sensitive military industries from Mexico City's metropolitan area, have been adopted to improve the environment in the Valley of Mexico. Also, the 1988 Mexican Environmental Law, named after the American experience, requires that environmental impact assessments be conducted in relation with any new domestic and foreign investments. In addition, I would like to point out that strict enforcement of these and other environmentally related rules and regulations are a priority of the current administration, and that President Salinas de Gortari has stated repeatedly that Mexico will not become a haven or a refuge for polluting industries.

An issue pointed out earlier, which has been in the minds of the negotiating teams of the United States, Canada, and Mexico, and in the minds of the different labor groups in the three countries, is the disparity of minimum wages between Mexico and the United States, and between Mexico and Canada. Hourly minimum wages in the United States, Canada, and Mexico are $4.25, $3.42 and $0.54, respectively. It must be recognized, however, that the wage differential is a reflection of the productivity of labor in the three countries. That is, factors such as technological progress, education, and global infrastructure determine the value of labor, and thus the wage rate. For example, even though Vollrath's relative trade advantage measure indicates that Mexico has a relative trade advantage in vegetable and fruit production over the United States and Canada, evidence suggests that the significance of that relative trade advantage, and in particular with respect to labor costs, is undermined due to the lower productivity of labor and restrictive work regulations in Mexico (Cook).

In my opinion, considering the Mexican experiences of the 1980s, the most important driving force for NAFTA in Mexico is the fact that the Mexican government has finally, and fully, recognized the relevance of the global interdependence of the world economy. With respect to the agricultural sector, the Mexican government has recognized that the inadequacy and the low productivity of the sector in satisfying the current and future food and fiber needs of the population is the result of many years of inward-looking protection, and of the fragmentation of the sector. Subsistence or traditional agriculture characterized by small-scale producers with little or no modern technology is common. With two million corn producers alone, the competitiveness of the agricultural sector has been severely affected. In order to promote future widespread growth, in the agricultural sector and the overall economy, the government recognizes that radical reforms and strong commitments have to be made.

The current proposal of President Salinas de Gortari to amend Article 27 of the Mexican Constitution has the principal objectives of ending land redistribution and establishing legal land tenure, to allow "ejidatarios" to use their land according to their own needs and potential and to enable stock companies to invest in the agricultural sector. This proposal, along with other liberalization of foreign investments and foreign ownership regulations, is expected to create a secure and stable environment in the economy which will induce increased foreign and domestic investment, not only in the agricultural sector, but in the rest of the economy as well. Citicorp Chairman John Reed (whose Citicorp bank is Mexico's largest creditor with about $2 billion in debt) recently pointed out that "The Mexican economy is robust. Mexico is very attractive to [foreign] investors" (Mexico Business Monthly 1991). Aliza Chelminisky, Vice-President of the Mexican Board of Investment, recently stated that cumulative foreign investment in Mexico has doubled from $20 billion in 1987 to an estimated $40 billion by the end of 1991 (Mexico Business Monthly 1992). By sector of destination, foreign investment in Mexico went into services (63.13 percent), industrial (23.9 percent), retail business (10.60 percent), agriculture (1.41 percent), and mining (0.91 percent). By country of origin, foreign investment in Mexico has come from the United States (66.13 percent), Germany (6.34 percent), Great Britain (6.17 percent), Japan (4.72 percent), France (4.44 percent), Switzerland (4.40 percent), Spain (2.26 percent), and others (5.64 percent).

Increased foreign investment, and repatriation of close to $35 billion estimated to belong to Mexicans abroad, is seen in Mexico as an important element to induce job creation in the industrial sector while downsizing the labor force in agriculture, and increasing productivity and profitability in the agricultural sector. There are obvious labor force transfer problems from the agricultural sector to the industrial sector, and the transition will most likely be very slow and painful, as this policy could create severe unemployment problems (Faux and Rothstein). But the Mexican government feels that this is the correct approach, because the agricultural sector cannot become productive and profitable as long as the labor force is so large. The goal of economic policy for the agricultural sector is to induce specialization in the production of agricultural commodities in which Mexico can become competitive and efficient. President Salinas de Gortari's November 1, 1991, 3rd State of the Nation Report provides a blueprint of the Mexican government's goals and priorities, and potential directions for trade and investment.

A FINAL COMMENT

President Salinas de Gortari's administration is far from solving corruption, rapid population growth, unemployment, and poverty problems in Mexico, but his administration has been far more innovative than those of previous Presidents. In addition, the existence of government intervention, which affects trade and the efficiency of the Mexican economy, cannot be denied. Mexican government officials have shown, however, that they intend to reduce that intervention. Attempts are being made, and I believe will continue to be made, to decrease government intervention. Through facilitating, rather than participating in economic activities in all sectors, including agriculture, government authorities are interested in people making money, because fair enforcement of tax laws is the only way that the Mexican government can make the investments necessary in health, education, research, technology development, and global infrastructure. These investments would enhance the welfare of the Mexican society and the allocative efficiency and productivity of Mexico's resources.

Regardless of what we say from our experience or learn from our economic models, increased and sustained trade, the exchange of goods and services for money, among the United States, Canada, and Mexico, will occur if and only if there is money to be made for both buyers and sellers. Increased foreign investment and other relations will depend on the ability of the Mexican government to create a secure and stable environment which ensures the preservation of property and repatriation of profits to the countries of origin.

We must remember that, in many ways, the majority of the Mexican society had been deprived of the opportunity to acquire and be exposed to products from other countries, the United States included, for many years. The significant increases in Mexican imports during the last few years are important, but in a way are a reflection of the short-term desire to acquire such goods and services. The growth and preservation of the Mexican market must be looked at carefully, because sustained income growth is not only in the best interest of Mexico, but also in the best interest of creating strong, reliable Mexican markets for the United States and Canada.

Again, I would like to emphasize that from the Mexican point of view, the signing of NAFTA is seen as one more step in the Mexican government's attempt to integrate the Mexican economy to the economic, social, and political realities of the times. NAFTA is seen in Mexico as one more link in the chain of political, social, and economic Mexican strategic planning for the future. Whether NAFTA is reached or not, the Mexican government has already embarked on redefining its role domestically and implementing international trade liberalization policies, which are expected to render positive results on growth and development of the economy. Only a few years ago, very few people would have thought that the sweeping reforms adopted and proposed by the Mexican government would have been possible.

The desire to reach a NAFTA with the United States and Canada is very much in everybody's mind in Mexico. With respect to the agricultural sector in particular, Mexican agricultural producers see that they must be ready to take a hard look at their operations and to evaluate their prospects of survival by competing in the production of agricultural commodities in which they have a disadvantage. It is expected that with NAFTA, the grain, oilseed, dairy, and, to some degree, other livestock industries in Mexico will lose, and that small or no gains could be expected in the horticultural, citrus, certain livestock, and cotton industries (American Farm Bureau Research Foundation).

One of the hardest obstacles to NAFTA, in my view, is that of selling it in the United States, more than selling it in Canada or Mexico. The distributional impacts of the proposed NAFTA (among particular states and industries within the United States) are a key to reaching an agreement, more so in the United States than in Mexico. We must remember that fast track authority was approved in the House of Representatives by the Republicans and the Democrats from the southwest, and that most Democrats voted against it. Thus, it seems that, as pointed out by Frank Bouis, a citrus grower in Lake County, Florida, it's time for dialogue among Americans.

Given the current domestic economic problems in the United States and the domestic perception of problems of President Bush's administration, a NAFTA among the United States, Canada, and Mexico will not be reached immediately, and possibly will have to wait until 1993 (Magnusson et al.). However, Presidents Bush's and Salinas de Gortari's administrations seem to be determined to make it a reality. After their December 14, 1991, summit meeting in Camp David, both Presidents urged their respective trade representatives to wrap up the trade negotiations "as soon as possible." In a recent news briefing, United States Trade Representative Carla Hills said that she hoped to have a first draft of the agreement by the end of January, 1992 (Mexico Business Monthly 1992).

Finally, I would like to point out that I have been impressed with the openness of discussion and the solicitation of input from the different economic sectors by the negotiating teams and the trade representatives of the United States, Canada, and Mexico, both within their own countries and across countries. It seems to me that everybody has realized that cooperation, communication, mutual trust, and respect are essential elements not only for the negotiations of NAFTA, but for its success.

If sweeping reforms were possible in Eastern Europe in the late 1980s, and the Commonwealth of Independent States was born from the former Union of Soviet Socialistic Republics on December 25, 1991, why not NAFTA among the United States, Canada, and Mexico in early to mid 1990s!

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