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# NAFTA and Agriculture: A Study of the Results of the North American Free Trade Agreement on Agriculture with a Focus on the U.S. and Mexican Beef Cattle Industries

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On January 1, 1994, the United States officially undertook the most comprehensive trade agreement in its history. The North American Free Trade agreement has been a great experiment in the tenets of free trade and also in regional trade. It is a unique agreement in that it links a developing country with the world's largest industrial economy. The agreement has now been in effect for three years and we are beginning to witness the results of its policies. Particularly in the United States and Mexico, the agreement has had a noticeable impact.

As a sector of vital importance to all three countries, agriculture was treated with special care. The bilateral agreement between Mexico and the United States provides a basis from which to examine NAFTA's influence on agricultural trade between the neighbors. An examination of NAFTA's impact on the beef cattle industry (an industry of considerable importance to both economies) provides some insight into the changes experienced by the agricultural sector as a whole. As a discussion of the industry will illustrate, NAFTA has been beneficial not only to American beef producers, but to U.S. and Mexican agriculture as a whole.

## Free Trade

In its most basic form, "free trade is the policy of allowing people of one country to buy and sell from other countries without restrictions."[1] The original version of free trade is attributed to late eighteenth century British economist Adam Smith. Smith argued that each rational individual is motivated to pursue his own best interest. In pursuing their own interests, individuals frequently promote the interests of the society as a whole "more effectually than when [they] really intend to promote it."[2] The pursuit by individuals of their own interests creates an "invisible hand" which in turn directs the activities of the market. Smith thus advocated the elimination of government intervention in matters of the economy.[3] Regulations by governments designed to provide the home-market with a monopoly in a particular good are in almost all cases, according to Smith, useless or hurtful.[4] Such a regulation is useless when a product can be provided at the same price by both domestic and foreign industry because, all else being equal, consumers will tend to favor the home trade over the foreign trade.[5] The regulation is hurtful if the good can be produced by the foreign competitor at a lower price than by the domestic producer. Common sense dictates that an individual would

> never attempt to make at home what it will cost him more to make than buy. The tailor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a tailor. The farmer attempts to make neither the one nor the other, but employs those different artifices. All of them find it for their interest to employ their whole

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1 Chapter preface. *Is Free Trade the Best Trading System?* David L. Bender, publ. Greenhaven Press (1991) 16.

2 Adam Smith. "Of Restraints Upon the Importation from Foreign Countries of Such Goods as Can Be Produced at Home" *An Inquiry into the Nature and Causes of the Wealth of Nations* New York: Random House, Inc. (1937) 423.

3 Peter Gray. *Free Trade or Protection: A Pragmatic Analysis* The Macmillan Press Ltd. (1985) 8.

4 Ibid.

5 Smith 424.

> industry in a way in which they have some advantage over their neighbors, and to purchase with a part of its produce...[6]

It is this division of labor (or specialization of occupation) among individuals that makes all work more meaningful and more productive.[7] Smith applied these observations of individual behavior to nation-states. As independent actors in the world economy, nation-states share the same basic goals as the individual consumer. If a foreign country can supply a good cheaper than the domestic country can make it, it is to the advantage of the domestic country to purchase the foreign product.[8] As a result, according to Smith's argument "free trade" is universally beneficial when each nation can produce some particular commodity more efficiently [can have an absolute advantage] than any other."[9]

Another British economist, David Ricardo extends Smith's contentions to include even those countries that do not enjoy an absolute advantage in the production of any good. Like Smith, Ricardo explains that in a perfectly free market, "each country naturally devotes its capital and labor to such employments as are most beneficial to each."[10] Likewise he agrees that this pursuit of individual advantage serves to advance the universal good of the country as a whole. By rewarding ingenuity and stimulating competition, the search for personal advancement "distributes labor most effectively and most economically. . .[and increases] the general mass of productions."[11] In doing so, it also has the effect of binding together all nations of the world. Without foreign trade, each country would be forced to devote a greater portion of capital and industry to the

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6 Ibid.
7 Chapter Preface 20.
8 Smith 424.
9 George Crane and Abla Amawi. *The Theoretical Evolution of International Political Economy* Oxford University Press, New York (1991) 7.
10 David Ricardo "On Foreign Trade" *Principles of Political Economy and Taxation* London: John Murray (1819) 144.
11 Ibid.

production of commodities that were needed but not efficiently produced by that particular country, rather than concentrating resources on the goods the country was able to produce more efficiently.

In his famous wine and cloth example, Ricardo explains how trade is based on comparative costs rather than absolute advantage. Ricardo illustrates his theory of comparative advantage using the example of Portugal as an efficient wine producer and England as an efficient producer of cloth. He explains that the quantity of wine Portugal is willing to give to England in exchange for cloth "is not determined by the respective quantities of labor devoted to the production of each, as it would be, if both commodities were manufactured" in one country or the other.[12]

In his example, England requires the labor of 100 men for one year to produce cloth and 120 men for one year to produce wine. Because England produces cloth more efficiently than wine, she would "find it in her interest to import wine, and to purchase it by the exportation of cloth."[13] In Portugal, production of wine necessitates the labor of eighty men for one year while cloth requires ninety men for that amount of time. As a result, it is advantageous for Portugal to export wine in exchange for cloth even though cloth production in Portugal is more efficient than in England. This is because it

> would be advantageous to [Portugal] rather to employ her capital in the production of wine, for which she would obtain more cloth from England, than she could produce by diverting a portion of her capital from the cultivation of vines to the manufacture of cloth.[14]

Thus in terms of labor, the produce of the labor of 100 Englishmen would be given for the produce of the labor of eighty Portuguese. Individuals of the same country

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[12] Ibid., 148.
[13] Ibid.,146.
[14] Ibid.

could not make this exchange but due to the relative difficulty with which labor and capital moves from one country to another, such trade is not only possible, but practical.[15] Ricardo reaffirms Smith's belief that government intervention in the market, at least in terms of protectionist measures, is undesirable because it diverts resources from those sectors possessing a natural comparative advantage in favor of those that are unable to operate as efficiently.[16]

The ideas of Smith and Ricardo are credited as being the foundation for the modern study of the international political economy. Due chiefly to their work, "liberal analysis conceptualizes political economy almost wholly in terms of interrelationships among rational individuals."[17] In this case, individuals include not only individual consumers but also individual groups and individual nations.[18] Of course the theories of Smith and Ricardo are still theories, albeit with considerable evidence on their side. Pure free trade does not exist. Its tenets have never been fully tested. Even in the most advanced liberal trade circles, regulations and barriers to the free exchange of goods and services remain intact.

Instead of free trade, most of the world has adopted a system of "liberalized" trade. The period immediately following the Second World War marked a significant shift in the international economic regime. Convinced that the economies of the world were inextricably linked and that only by linking them even more closely could worldwide peace be maintained, the United States as hegemon established the framework for today's Liberal International Economic Order. The formation of the General

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15 Ibid. 148.
16 Michael Lusztig. *Risking Free Trade: The Politics of Trade in Britain, Canada, Mexico and the United States* University of Pittsburgh Press, Pittsburgh (1996) 2.
17 Crane 8.

Agreement on Tariffs and Trade (GATT) in 1947 reaffirmed that order and has urged progressive worldwide liberalization since that time.

The basic goal of liberalization is again, the elimination of as many regulations and barriers to the free exchange of goods and services as possible or the erection and implementation of policies designed to facilitate free trade. Political considerations dictate that pure free trade cannot exist without at least a partial restructuring of the current nation-state system. Even in its somewhat limited form, however the benefits and disadvantages of liberalized trade are readily apparent and are hotly debated by the citizens and leaders of virtually all countries of the world.

## Benefits of Free Trade

In many ways the benefits of free trade are the same as the benefits of trade in general. Those who favor free trade speak of themselves as favoring trade. The existence of gains from trade has become "the basis for the modern formal argument for free trade."[19] Free trade achieves the greatest level of output for a given resource. As a result, any regulation restricting "the free flow of goods and services among nations must necessarily reduce global output, and . . .global welfare." [20] A 1939 study by Samuelson proves that in a competitive equilibrium, regardless of what commodity and factor prices may be, trade always leads to the greatest gain.

Ricardo's theory of comparative advantage illustrates that even in cases in which one country is more efficient at producing everything than another country and when as a result producers in the less-efficient economy must pay lower wages to compete, free

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[18] Ibid.
[19] Gray 9.

trade is beneficial to both.[21] The explanation for this is that trade stimulates exports, the production of which requires heavy use of locally abundant resources and it stimulates imports whose production necessitates resources that are not readily locally available.[22]

Of course the economic success of the theory rests on the elimination of regulations on trade. Tariffs, though frequently beneficial (in the short run at least) to domestic producers and even to the government collecting the duties, reduce the general welfare by forcing higher prices on domestic consumers as well as a loss of consumer surplus.[23] In the long run, domestic producers also suffer because tariffs tend to reduce the variety of capital available to them.[24]

Far from its purely economic benefits however, free trade also has a political and a philosophical appeal. In its purest theoretical sense, free trade is non-political. If carried to its full potential, many argue it would subordinate political considerations "to the point of nonexistence."[25] In reality however, liberal trade policy has become a hallmark of international political concern. The concept of complex interdependence is, in the current international climate, inextricably linked to liberal trade notions. Interdependence implies the existence of "situations characterized by reciprocal effects among countries or among actors in different countries."[26] In the years after World War II, the number of international transactions, that is "flows of money, goods, people and

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[20] Ibid.
[21] Charles K. Rowley, et.al. *Trade Protection in the United States* Aldershot, Edward Elgar Publishers Ltd. (1995) 31.
[22] Ibid.
[23] Ibid. 32.
[24] Ibid.
[25] Crane 8.
[26] Robert O. Keohane and Joseph S. Nye "Realism and Complex Interdependence" *The Theoretical Evolution of International Political Economy* ed. George Crane and Abla Amawi. Oxford University Press: New York (1991) 123.

messages across international boundaries" has increased radically.[27] Although these phenomena certainly serve to increase the level of interconnectedness between countries, they do not necessarily equate interdependence. For genuine interdependence to occur, countries must share "reciprocal costly effects of transactions."[28] That is, the countries must rely on each other for necessary goods like oil rather than for luxury goods.

Obviously, the more closely integrated two or more economies are, the more sensitive each will be to changes in the others' policies. The Oil Shocks of the early 1970's illustrated this point. The sudden increase in oil prices left the economies of Japan, Western Europe and the United States unprepared and vulnerable.[29] This sensitivity also has become associated with a distinct political doctrine based on harmonious relations between states.[30] Edmund Silberner argued in the nineteenth century that war is "...the natural state of men ignorant of the laws of political economy."[31] The United States took on this view after the Second World War as it established the existing liberal order. After two major world wars and a devastating economic depression, U.S. policymakers were convinced that the only way to avoid continued conflict was to reinforce the ties between states. Free trade is the natural means to that end. It forces a focus on economic considerations like productivity. War undermines productivity by requiring abundant resources, thus peace is in the interest of all states.[32]

Philosophically, free trade is also appealing to the democratically-minded. As Krauss explains:

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27 Ibid.
28 Ibid.
29 Ibid.
30 Crane 8.

> The conflict between the economic interests of specific groups within the community, and the economic interests of the community as a whole is the essence of the free trade versus protectionism controversy. Free traders argue from the standpoint of the overall economy, protectionists argue from the standpoint of particular interest groups.[33]

Free trade is a theory designed to contribute to the betterment of the population as a whole. In the short term, it can be negative for those domestic residents who are associated with import competing firms. Typically however, "the gainers...gain more than the losers lose."[34]

## Arguments Against Free Trade

"Economists have long been frustrated by the discrepancy between the irrefutable logic of the benefits of free trade in *theory*, and the persistence of protectionism in *practice*."[35] Objection to the tenets of free trade comes in a variety of forms and from a variety of elements within society. This objection tends not only to refute the theories of free trade, but also simultaneously to embrace notions of protectionism. The most vocal opponents tend quite naturally to be those most likely to be forced to withstand personal financial loss to assure its benefits to everyone else. As Vilfredo Pareto observed, individuals are willing to work much harder to achieve a large gain than to avoid a small loss. His reasoning is that "a protectionist measure provides large benefits to a small

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[31] Ibid.
[32] Ibid.
[33] Melvyn B. Krauss. *The New Protectionism: The Welfare State and International Trade* New York University Press, New York (1978). Cited by Peter Gray in *Free Trade or Protection? (1985)* 15-16.
[34] John C. Whitehead "International Trade Benefits All Nations" *Is Free Trade the Best Trading System?* ed. by David L. Bender. Greenhaven Press Inc. (1991) 36.
[35] Gilbert R. Winham *The Evolution of International Trade Agreements* University of Toronto Press, Toronto (1992) 34.

number of people, and causes a very great number of consumers a small loss, [which] makes it easier to put a protection measure into practice."[36]

In their philosophical discussion of the democratic aims of free trade, its supporters ignore the reality that special interest groups are a significant feature of democratic government. These groups are by nature, better organized, more efficient and more dedicated to achieving their policy goals than are the masses. They tend to receive more attention from policymakers because:

> even when these concentrated interests are not well organized, legislators know that the affected publics are both more attentive to Washington action and more likely to show their appreciation at the polls than are those citizens who have less at stake and who are less attentive to what happens in Congress. These simple arguments help to explain why Congress erects trade barriers to protect specific industries, creates an endless stream of special tax provisions, maintains price supports for many agricultural commodities, and refuses to enact restrictions on the ownership of guns.[37]

Stereotypically we think of opposition to free trade as coming predominantly from organized labor groups and import-competing firms and industries. While that certainly holds true, in recent years the voice of opposition has also spread to social, as opposed to purely economic groups. These groups are composed of members from many sections of society and their ideas tend to elicit a considered response from elected officials. In the case of organized labor, jobs and wages are, of course, always of prime concern. The U.S. debate over the signing of the North American Free Trade Agreement, for example illustrates the typical breakdown of support for free trade initiatives. While support for the Agreement was extremely high among upper income and college-educated Americans, "production and nonmanagerial workers" and Unions were

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[36] Vilfredo Pareto. Quoted in Winham's *The Evolution of International Trade Agreements* (1992) 34-5.

steadfastly opposed.[38] Their skepticism was fueled mainly by the fear that many American and multinational corporations currently located in the United States would close their U.S. operations and relocate to Mexico where they would be able to take advantage of the lower cost of labor there as well as more lax environmental, ethical and safety regulations.[39] The result, they feared would be a net loss of blue collar and manufacturing jobs to Mexico as well as a decrease in wages in the United States. More broadly, these critics maintained that the provisions of NAFTA failed to assure wage growth in Mexico and as a result "Mexico's labor surplus, weak unions, and macroeconomic austerity will prevent wages from rising even as foreign investment increases."[40] The decreased cost of doing business, they argued would result not in a reduction of prices for consumers but rather in higher profits for the large corporations. This situation defines a central objection to free trade: that is, that its benefits are seen predominantly by those already at the top of the income distribution and their costs must be borne disproportionately by those at the bottom. Free trade is thus, in the view of its opponents, elitist and undemocratic.

Industry and import-competing firms have also advanced a number of arguments against free trade, many of which are formed more as reasons that protection is necessary than as reasons for avoiding free trade. The infant-industry argument in favor of trade protection maintains "that temporary protection may be necessary to allow an industry to reach maturity, to reap the full benefits of learning by doing, and thus to achieve its

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[37] Ibid.
[38] Karen Roberts and Mark Wilson. *Policy Choices: Free Trade Among NAFTA Nations* Michigan State University Press: East Lansing (1996) 38.
[39] Ibid., 41.
[40] Ibid.

comparative advantage."[41] In its early stages, proponents say, an industry cannot be expected to be able to compete with long-established foreign producers. The problem with this argument is that the supposed need for protection for the infant industry is based on a time-related problem faced by all industries all of the time. With any capital investment, "monies must be set aside now for revenues that will accrue in the future."[42] Another dilemma is that protection of an unstable infant industry may promote investment that will only be lost once the industry is on its own. Similarly there is generally a lack of compelling reason for supporting an infant industry when the good it offers is already being produced within the market.

Another popular justification for protection is the national defense argument which maintains that a country should maintain its domestic productive capabilities in certain products - even though the logic of comparative advantage would suggest that the product should be imported.[43] In the United States, steel is protected under this guise. This creates problems for other domestic firms, like automobile producers, who are unable to maximize their own competitiveness because they are forced to purchase steel at prices higher than those paid by foreign competitors.[44] It would seem also (in some cases at least) that a policy of stockpiling the good would be more economical than producing it at a higher cost.[45] Related to this argument is the fact that protectionism is at

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41 Rowley 50.
42 Ibid.
43 Ibid., 52.
44 Enzo Grilli and Enrico Sassoon. *The New Protectionist Wave* New York: New York University Press (1990) 3.
45 Ibid., 51.

times a form of foreign policy. Tariffs, credits, quotas, boycotts, embargoes, loans and currency manipulation are all "economic instruments of foreign policy."[46]

The events of the 1980's brought about another argument against free trade. This one advocated the abandonment of free trade principles in favor of strategic trade policies. During this time changes occurred in the character of both the U.S. and world economies which made classical theory seem irrelevant. This fact, along with the rise of oligopolies in new but vital technological industries led many to assert that the traditional view that "free trade is always the best policy" no longer held true.[47] Instead, it was argued that an activist trade policy, one that provided specific benefits to the most important sectors, would be more beneficial. A number of problems plague this theory as well, however. Most basically, there is no set formula by which government can accurately determine which sectors are "strategic." In that case the voices of special interests tend to be granted too much power and the result is an incoherent and inefficient trade policy.[48]

More recently, attention has turned to the "fair trade argument." The concept behind fair trade claims that trade policies should be harmonized such that trade takes place between countries that are equally situated. The obvious problem here is that one of the major benefits to trade is diversity among nations. In large measure "international trade exists...because of differences in tastes and endowments between countries."[49] Much of the argument is based in the U.S. on the idea that lower labor costs give foreign

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[46] Senator John Heinz. *U.S. Strategic Trade: An Export Control System for the 1990's* Boulder, CO: Westview Press (1991) 3.
[47] Paul Krugman "New Thinking About Trade Policy" *Strategic Trade Policy and the New International Economics* Cambridge, MA: MIT Press (1988) 7.
[48] Rowley 63.
[49] Ibid.

competitors an unfair advantage.[50] In reality, cheap labor does yield a comparative advantage in the production of labor-intensive commodities. Where labor is expensive, on the other hand, a comparative advantage in capital intensive commodities tends to exist.[51]

A similar reason for opposing free trade of late is the phenomena of dumping. Essentially, the argument here is that unfair competition arises when foreign producers sell their products at below-market prices.[52] Opponents of free trade argue that a tariff must be levied to counteract this policy. This argument makes little sense however because in the long run, no firm can continue to sell its goods at prices that are unprofitable. A tariff is thus an unnecessary measure in this case.

The social-minded opponents of free trade (often referred to as "cosmopolitan" opponents) tend to focus on slightly different aspects of the free trade debate. They argue that the past 200 years of international trade have increased the disparities in world living standards. A study by Swiss economist Paul Bairoch contends that "per capita Gross National Product in 1750 was approximately the same in the developed countries as in the undeveloped ones."[53] In 1990 the ration was eight to one in favor of the developed. A quote from James Roberson's book *Future Wealth* sums up this viewpoint:

> The world has never had a genuinely free and fair trading system. Ever since people argued whether trade follows the flag or the flag follows trade, trade has been based on domination and dependency, and has been an instrument of them. The ideology of free trade has been used, as ideologies often are, to justify the strong in taking advantage of the weak and to persuade the weak that it is neither conceptually respectable nor in their own best long-term interest to protect themselves.[54]

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[50] J. Bhagwati "Free Trade: Old and New Challenges" *Economic Journal* 104(3): (1994) 238.
[51] Rowley 64.
[52] Ibid., 65.
[53] David Morris. "Free Trade is Harmful" *Is Free Trade the Best Trading System?* ed. by David L. Bender. Greenhaven Press Inc. (1991) 26.
[54] Ibid., 27.

This argument centers primarily on income inequalities between countries of the North and of the South. Cosmopolitan opponents claim that the liberal economic order has resulted in the further impoverishment of citizens in Third World countries. Indeed there is also concern that trade with the poor countries of the South has also led to a net decrease in wages and working conditions in the North.[55] These people claim that a major goal of trade policy should be the improvement of living conditions worldwide and in particular the securing of decent wages and working conditions.

The notion that free trade itself is to blame for the inequality in worldwide wages is not fully substantiated. Admittedly, the theory of free trade does not claim to make possible a convergence of wages or standards of living between rich and poor. Rather, it promises to increase standards in both.[56] Furthermore, this argument ignores the advances in technology that have come about during the past two centuries. Skilled labor has always been associated with the accumulation of capital. As most skilled labor is located in the North and as the use of computers and other modern technology continues to displace unskilled labor, the income gap is likely to grow.[57]

Another objection motivated by social rather than economic considerations to arise in recent years is that free trade is harmful to the environment. Ralph Nader, the unofficial spokesperson for environmentalists opposed to free trade, and others have argued that free trade enables multinational corporations to more easily operate in regions of the world where environmental, health and safety standards are lax at best. Nader and his backers fear that expanding free trade will result not only in a dramatic increase in

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[55] Bhagwati 241.
[56] Ibid., 242.
[57] Rowley 68.

pollution in Third World countries, but that it will result also in a worldwide reduction of environmental regulations as industrialized countries fight to retain their industries.[58] This argument has been perpetuated for some time now, but as yet there has been little evidence to suggest a worldwide reduction in standards governing industry and environment.

Although there are easily identifiable problems associated with most of these arguments against free trade, it is easy to see why they get so much attention. Most of these are highly salient issues to those affected. They are also issues that tend to elicit a powerful emotional response, even from those who are not directly influenced by the outcome of the debate. It is not surprising, therefore that rational policymakers often find it difficult to support free trade ideals.

Despite this, governments push on in their quest to extend the benefits of free trade. Change in this realm has come step-by-step, and always in the face of powerful criticism. Although some worldwide trade agreements like the GATT have been initiated, the drive for worldwide cooperation in reducing tariff barriers has been led by the creation of several formal trade agreements at the regional level.

## Regional Trade

The trade regime envisioned by U.S. leaders in the aftermath of World War II was multilateral in nature. The GATT was created in that spirit in 1947. Its intention was to establish a free and open trading system that included many nations.[59] The basic

[58] Ralph Nader. "Introduction: Free Trade and the Decline of Democracy" *The Case Against Free Trade* San Francisco, CA: Earth Island Press (1993) 2.
[59] Richard S. Belous and Rebecca S. Hartley *The Growth of Regional Trading Blocs in the Global Economy* Washington, DC: National Planning Association (1990) 1.

principle behind the GATT was nondiscrimination. Any and all nations that were willing to abide by its rules were welcome to become members. Ultimately, the goal of GATT is "to build a unified and integrated global system" for the purpose of increasing trade, prosperity and peace.[60]

Although the GATT has continued to grow in both size and stature since its inception, another international trade trend has emerged with similar, though not identical goals. Since the creation of the European Coal and Steel Community in the 1950's, the notion of regional trade has stood as both a counter and a complement to the themes of multilateral trade. The most important question regarding the outgrowth of regional trade arrangements is: what will the effect of these regional agreements be on multilateral liberalization?

Two major views persist. The first and somewhat outdated view contends that because of their differing attitudes, regional trade blocs will be detrimental to continued multilateral liberalization. Multilateral initiatives like the GATT and the International Trade Organization were based on the principles of equality and nondiscrimination. This system progressed through the 1950' and 1960's but began to slow down as did the world economy in the 1970's. During the next decade, the growing realization that the United States could not on its own continue to hold up the GATT and hence the existing multilateral regime increased interest in regional trade blocs.[61]

The primary difference between multilateral and regional trade in this view is that regional trade blocs necessarily follow a policy of discrimination. Whereas with the

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60 Ibid., *x*.
61 Ibid., 2.

GATT members treat all other members as "most favored nations," members of regional trade blocs "share special preferences not granted to nations outside the bloc."[62]

Proponents of this view also argue that while multilateral trade bases its "economic view of the world on the efficacy of free trade and the concept of comparative advantage, supporters of regional trade blocs, though not opposed to free trade, tend more towards an activist role for the government."[63] Regional trade involves greater use of trade policy, investment strategy and government intervention designed to alter comparative advantage.

The major concern of those who feel that regional trade blocs are a threat to multilateralism is the "them versus us" attitude that they argue defines regionalism. This attitude contrasts with the more open and democratic spirit of a multilateral regime like that upheld by the GATT.[64]

In contrast to that view is the notion that regional trade agreements are actually building blocs to the larger goal of eventual multilateral cooperation. This argument has gained in strength since the beginning of this decade. Proponents of regional trade arrangements typically include multinational corporations and large industries that stand to gain from an increased market. Governments tend to favor regional trade arrangements because they stimulate growth and investment.[65] The ever "increasing number of new [regional trade] arrangements and the enlargement of the old ones has shown...that this form of organization could be considered an intermediate step towards

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[62] Ibid., 4.
[63] Ibid.
[64] Ibid.
[65] Robert Z. Lawrence. "Emerging Regional Arrangements: Building Blocks or Stumbling Blocks?" *International Political Economy: Perspectives on Global Power and Wealth* ed. by Jeffry Frieden and David Lake. St. Martin's Press: New York (1995) 409.

multilateral liberalization."[66] The economic behavior of the largest and best established of the trade blocs in that time demonstrated openness in relation to other parts of the world.[67] When the European Community was formalized into a Union early in the decade, many expressed the fear that it would become a "Fortress Europe" and would no longer have a need or an incentive to continue trading with the rest of the world.[68] It has proven thus far however, that despite the elimination of trade barriers within its walls, it is still willing to do business with non-members.

Not only have regional trade arrangements proven merely compatible with multilateral liberalization, they in fact "have had a positive overall impact on international trade and the multilateral trading system."[69] Internal adjustments within the trade blocs have actually seemed to make the member economies more competitive and better prepared to accept both the economic and political aspects of multilateral liberalization.[70] In addition regional trade blocs have served as "test beds" for "techniques which have subsequently found application in the multilateral trading system."[71]

Regardless of the effect of regionalism on multilateralism, its appeal is certainly growing worldwide. By the 1980's, a number of important preferential trade agreements were underway. During that time, the European Community continued to integrate more

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[66] Vera Thortensen. "Connections and Interlinkages Between Regional Integration Arrangements and the Multilateral Trading System: The Perspective of Mercosul" *Regionalism and its Place in the Multilateral Trading System* OECD Publications: Paris (1996) 105-6.
[67] Ibid.
[68] Ulrich Hiemenz "European Economic Integration" *Regionalism and its Place in the Multilateral Trading System* OECD Publications: Paris (1996) 73.
[69] *Regional Integration and the Multilateral Trading System: Synergy and Divergence* OECD Publications: Paris (1996) 14.
[70] Ibid.
[71] Makoto Taniguchi. "Opening Address" *Regionalism and its Place in the Multilateral Trading System* OECD Publications: Paris (1996) 16.

closely. Canada and the United States signed a new free trade agreement and in South America, Brazil, Uruguay and Paraguay joined together in MERCOSUR.[72] By 1995, the European Union was a formal entity, Mexico had joined together with Canada and the United States to form the North American Free Trade Agreement, and the World Trade Organization have received notification of over ninety new preferential trade agreements.[73]

Of all the existing trade blocs, the European Union is of course the oldest and the most advanced. The European Community was first established in 1958 and has since grown into the most tightly integrated economic area in the world. With the signing of the Maastricht Treaty on November 1, 1993, the EC became officially a "Union" and a single market providing for the free movement of people, capital, and goods and services. At the same time Maastricht prepared the way for greater political and economic integration with its plans for the creation of a European Monetary Union (EMU) and a single currency before 2000.

Even before Maastricht, pressure was mounting for other regions to take more formal steps toward integration. In Asia, ASEAN, which was originally created in 1967, began working "to enhance its effectiveness in economic cooperation."[74] The North American response to the challenge of the EU was the creation of the North American Free Trade Agreement (NAFTA).

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[72] Takatoshi Ito and Anne Krueger. *Regionalism Versus Multilateral Trade Arrangements* University of Chicago Press: Chicago (1997) 2.
[73] Ibid.

## Why NAFTA?

The North American Free Trade Agreement came about as the next logical "step in a gradual process of economic integration that has been under way implicitly in North America for quite some time."[75] In 1965, Canada and the United States formed the Canada – U.S. Auto Pact. Two decades later that pact was expanded into the Canada – U.S. Free Trade Agreement.[76] Between 1985 and 1989, the U.S. also signed a number of trade agreements with Mexico designed to help reform the Mexican economy and bring it more "up to speed" with its developed neighbors to the North.

In the early years of this decade the leaders of all three countries were undoubtedly urged on by events in Europe. Integration of the three economies promised to yield a market as large and populous as that of the European Union.[77] The lure of a North American economic alliance was

> Not that it would greatly embellish the existing trade bloc known as the United States, but rather that it holds open the prospect for substantial synergy among the three economies that could generate important income and employment gains and enhance the international competitiveness of firms throughout the region.[78]

Similarly at the time all three countries were faced with large foreign debts and thus the "need to improve the efficiency and productivity of their labor forces and industries to compete more effectively against foreign suppliers in markets at home and abroad."[79]

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[74] Apiradi Tantraporn "ASEAN and Regional Economic Co-Operation" in *Regionalism and its Place in the Multilateral Trading System* OECD Publications: Paris (1996) 4.
[75] Gary Clyde Hufbauer and Jeffrey J. Schott. *North American Free Trade: Issues and Recommendations* Institute for International Economics: Washington, DC (1992) 3.
[76] Ito and Krueger 1.
[77] Hufbauer 4.
[78] Ibid.

## What is NAFTA?

The North American Free Trade Agreement which went into effect on January 1, 1994 was the result of years of debate and discussion between and within its member states: Canada, Mexico and the United States. The Agreement created a market with total production (GNP) of nearly $60 trillion, total population of 357 million and total trade of $1.4 trillion.[80] This market was larger than its closest competitor at the time, the European Community (EC). Combined with the then European Free Trade Association (EFTA), the EC had "a combined GNP of $5,784 billion and a population of 358 million."[81]

Dominated by the U.S. economy, which accounts for over 85 percent of NAFTA's output and 70 percent of its population, NAFTA improves prospects for cooperation among its three member states "that could generate important income and employment gains and enhance the international competitiveness of firms throughout the region."[82] NAFTA sets the ground rules that the already underway process of cross-border trade liberalization should follow. In a nutshell, it stipulates that virtually all restrictions on manufacturing trade be eliminated within 10 years. Regulations on agricultural goods are to be removed within 15 years.[83] In addition to manufactured and agricultural goods, NAFTA discusses intellectual property, investments and services like banking, insurance and shipping and "parallel agreements authorized the imposition of

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79 Ibid.
80 Ibid. 4.
81 Hufbauer 4.
82 Ibid.
83 William A. Orme, Jr. *Understanding NAFTA: Mexico, Free Trade and the New North America* University of Texas Press: Austin (1996) 1.

trade sanctions to provide additional protection to workers and the environment.[84] It's goals and objectives are clearly defined in Chapter 1, Article 102:

> The objectives of this Agreement, as elaborated more specifically through its principles and rules, including national treatment, most-favored-nation treatment and transparency are to:
> (a.) Eliminate barriers to trade in, and facilitate the cross border movement of goods and services between the territories of the parties;
> (b.) Promote conditions of fair competition in the free trade area;
> (c.) Increase substantially investment opportunities in their territories;
> (d.) Provide adequate and effective protection and enforcement of intellectual property rights in each Party's territory;
> (e.) Create effective procedures for the implementation and application of this Agreement, and for its joint administration and the resolution of disputes; and
> (f.) Establish a framework for further trilateral, regional and multilateral cooperation to expand and enhance the benefits of this Agreement.[85]

The achievement of this agreement and then its subsequent ratification in each of the three member nations did not come easy. The vastly different economic situations in the U.S. and Canada and Mexico created a unique negotiating situation. Each partner came to the table with a list of criteria and objectives it wanted to ensure would be met. Each also faced severe opposition from various groups within its own population.

The differing perspectives on NAFTA among its three members are important. The objectives sought and the obstacles that had to be overcome by each state were influential to the outcome of the agreement and have the potential to color its future as well as the future of later trade arrangements.

## Mexico

Although the official origins of NAFTA are questionable, it seems certain that the individual most committed to turning the concept into a reality was Mexican President Carlos Salinas de Gortari. Beginning with the signing of the Brady Plan, the pact which

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[84] George W. Grayson *North American Free Trade Agreement* University Press of America: Lanham (1995) 3.
[85] North American Free Trade Agreement. Chapter 1, Article 102.

reduced payments of Mexico's $48 billion foreign debt in February, 1990; Salinas embarked upon a mission to attract foreign investment into his country's economy. His approach was twofold. Salinas committed himself first to "the privatization of Mexico's banks" and second, to "the pursuit of a free trade pact with Washington."[86]

Privatization turned out to be highly successful. The Salinas Administration eventually sold 18 banks for more than three times book value. In addition, the prospect of NAFTA "drove up the market value of state airlines, steel mills, fertilizer factories" and many other properties.[87] By mid-1992, aided by the potential for NAFTA, Salinas managed to take in $19.5 billion from privatization sales.[88] The pursuit of a free trade agreement with the U.S. however proved to be more difficult. Among his own people, a century and a half of pent-up anger toward the U.S. for its annexation of Texas in 1821 and its "purchase" of California and New Mexico in 1845 revealed itself in the form of extreme mistrust of U.S. goals. In the eyes of most Mexicans, their country's relationship to its Northern neighbor is one shaped by "armed conflict, military invasion, and economic and cultural penetration."[89] Salinas' efforts to negotiate a free trade deal with the U.S. were thus not only hampered by economic concerns, they were also politically risky.

Despite these obstacles, Salinas managed to mobilize support for the initiative. One important factor was the existing interdependence between Mexico and the United States. This interdependence was most obviously manifested in the *Maquiladora* agreement, border crossings and population settlements along both sides of the border.

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[86] William A. Orme, Jr. *Continental Shift: Free Trade and the New North America* Washington, DC, The Washington Post Company (1993) 22.
[87] Ibid., 23.
[88] Ibid.

*Maquiladoras*, or in-bond plants, were created by a 1965 agreement between the two countries. Intended to solve the problem of Mexican migrant workers refusing to return home after working in the U.S. and opting instead to remain in the border towns with the hope of finding an opportunity to cross back into the U.S., the National Border Program as it was called in Mexico (Border Industrialization Program in the U.S.) declared that "U.S. companies that wanted to locate plants on the Mexican side of the border would receive preferential tax treatment of the goods they produced there."[90] Under the U.S. Tariff Schedule Code, these plants were subject to tariffs only on the value added to the good during manufacturing. Between 1975-1985, "the share of Mexican employment in the *maquiladoras* more than doubled, rising from 1.84 percent to 4 percent" and by 1990 nearly half a million people were employed by *maquiladoras.*[91] These companies were successful not only in providing jobs, they also proved to be "the most stable economic sector and the leaders in Mexican exports and growth" during the Mexican economic crisis of 1995.[92]

Border crossings between the two countries are another sign of increasing interdependence. The U.S. Immigration and Naturalization Service reports that in 1988, 226 million people, 60 percent of whom were non-U.S. citizens, crossed the border legally. In 1989, over 60 million "crossed at just one point of entry, between Tijuana and San Diego."[93] These numbers illustrate the magnitude of interaction between Mexico and the U.S. They also reflect the immense population growth along both sides of the

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89 Robert T. Moran. *NAFTA: Managing the Cultural Differences* Houston, TX: Gulf Publishing Company (1994) 30.

90 Manuel Chavez and Scott Whiteford. "Beyond the Market: Political and Socioeconomic Dimensions of NAFTA for Mexico" in *Policy Choices: Free Trade Among NAFTA Nations* ed. by Karen Roberts and Mark Wilson. Michigan State University Press: East Lansing (1996) 16.

91 Ibid., 19.

92 Ibid.

border. From 1970 to 1990, population in the northern Mexican states and in the Southwestern U.S. rose from 42 million to nearly 63 million people. This area consists of "roughly one-fifth of the two countries' total populations."[94] The quantities of people living in this region "puts pressure on services, the environment, natural resources, infrastructure, employment, and political systems and adds to the development problems being addressed" by both Mexico and the United States.[95]

From a Mexican perspective, therefore, NAFTA can be considered a formalization of processes that have long been underway. Why then, was there a need for the agreement? Mexico's initial objectives in the NAFTA were thus relatively clear. First and foremost, a free trade agreement with the U.S. would secure open access to the American market.

In addition to the interdependence created by these three factors, Mexico relies on the U.S. market for approximately 75 percent of its total trade. Exports to the U.S. constitute 13 percent of Mexican GNP and recent alterations in the composition of Mexican exports, namely the "sharp growth in manufactures exports and a sharp drop in the share accounted for by oil" has increased Mexican dependence on U.S. consumers.[96] The free trade agreement was a way to ensure that protectionism by the U.S. would not hinder Mexican exports. Although to date, protectionism has not been much of an obstacle, it was feared that "the continued growth of Mexican non-oil exports to the United States could generate pressures for new U.S. trade controls."[97]

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93 Ibid.
94 Ibid.
95 Ibid.
96 Hufbauer 19.
97 Ibid.

Mexico's second incentive was that the NAFTA promised to spur domestic reform efforts which were already underway.[98] In addition to the privatization and deregulation of key sectors undertaken by Salinas, "regulations regarding foreign investment and technology transfer have been liberalized and the intellectual property laws substantially revamped."[99] Mexico's record of sharp currency devaluations and fiscal difficulties as well as its history of "erratic policy swings and property seizures" have for years given it a bad name among investors.[100] The peso crisis, which erupted in 1995, had been predicted during the NAFTA negotiations. By securing international commitments to expanding Mexico's domestic economic reforms however, the NAFTA was meant to signify that this was a new Mexico and that its "favorable climate toward trade and investment" would not be easily reversed.[101]

Future Mexican economic development, as Salinas realized, is dependent on increased foreign investment, repatriation of blight capital and loans from international financial institutions like the IMF and the World Bank.[102] By making the Mexican economy a part of the largest market in the world, NAFTA improves its prospects for all three of these objectives.

## Canada

Canada was not nearly so receptive to the idea of a continental free trade arrangement as Mexico. In March 1990 when then Prime Minister Brian Mulroney was alerted to the possibility of a U.S. Mexican trade accord, he was the most unpopular

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98 Ibid., 12.
99 Ibid.
100 Orme. 22.
101 Hufbauer 16.

leader in Canada's 50 year polling history.[103] The free trade agreement he had negotiated with the United States was being blamed for the recession that had struck Canada the previous year. As a result, many Canadians were outraged at the prospect of a broader agreement, especially one that included Mexico which accounts for merely .4 percent of Canada's total exports and 1.3 percent of its imports.[104]

The issue of sovereignty was raised frequently during the NAFTA debate in Canada. Mulroney explains this viewpoint in a speech regarding the CFTA. "Canadians derive many benefits from their proximity to the U.S., but they have to pay a price for it too. How high a price remains negotiable, but economic, cultural and political sovereignty must be protected constantly or else be lost."[105] Of these concerns the primary one was economic. Canadian policymakers and citizens were concerned that free trade with the U.S. and Mexico would require to some extent, a restructuring of the Canadian economy. Their fear was that such a restructuring would have negative implications for many popular but expensive public programs.[106] Their rationale was that while the NAFTA did not insist on the convergence of national policies, a free trade agreement would produce new competitors within the region, thus increasing pressure toward eventual convergence."[107] Similarly, many feared that if Canada were to continue to run large fiscal deficits and "control inflation through tight monetary policy" it would

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[102] Ibid.
[103] Grayson 57.
[104] Khosrow Fatemi and Dominick Salvatore. *The North American Free Trade Agreement* The Alden Press: Oxford (1994) 120.
[105] Roberts and Wilson 8.
[106] Hufbauer 20.
[107] Ibid.

face both high interest rates and a strong exchange rate, policies which would put Canadian firms at a distinct competitive disadvantage.[108]

Why then did Canada choose to accept such an agreement? A major reason was its desire to avoid missing the boat. Canada has always maintained a powerful role in international negotiations, far more powerful than its economic position merits. Staying out of the NAFTA, some feared, would reduce Canada's claim to be one of the "Big Four" in trade negotiations (along with the U.S., the European Union and Japan).[109]

Likewise, Canadian policymakers wanted to avoid a relative reduction of its current FTA benefits in the U.S. market. To a much lesser degree, they wanted to ensure that Canadian access to Mexico's market was comparable to that allowed its American competitors.[110] Like the United States, Canada was concerned with increasing competition from Japan and Europe as well as new competition from the "Asian Tigers," and other newly industrialized countries like India and Brazil.[111] The NAFTA would force Canadians to "either continue to recover their competitiveness relative to their trading partners or forfeit their standard of living."[112]

## The United States

As by far the largest and most powerful of the three economies joined by the NAFTA, the United States plays a unique role. As in Canada, public opinion in the U.S. mounted quickly against the trade deal. Although negotiations for the NAFTA began

108 Ibid.
109 Ibid.
110 Ibid., 21.
111 Brigitte Levy. "Canada – United States – Mexico Integration: The Management Challenge From a Canadian Perspective" in *The North American Free Trade Agreement* ed. by Khosrow Fatemi and Dominick Salvatore. The Alden Press, Oxford (1994) 102.
112 Ibid., 111.

under President Bush, the topic did not turn into a real media frenzy until the 1992 presidential campaign. Poll after poll taken during the election year revealed that a majority of Americans felt insecure about the economic future of the nation.[113] Concern over the economy came from many places. Talk of the massive federal deficit, increasing unemployment and the decline in U.S. competitiveness overseas dominated news headlines. It was largely in response to that insecurity that billionaire Texan H. Ross Perot managed to step into the Presidential limelight and become the most successful third party candidate since Teddy Roosevelt in 1912.[114] While both President Bush and his Democratic challenger Bill Clinton supported the NAFTA, Perot based his campaign on attacking the agreement. He became the voice of myriad groups who opposed the NAFTA. Perot summed up most of the U.S. argument against NAFTA in a June 1992 interview in *New Republic:*

> . . .I am not a protectionist, but pragmatically as a guy who understands business, if I can build a factory in Mexico, pay my labor a dollar an hour, hire a 25-year-old work force, have little or no health care, little or no retirement, have no pollution or environmental controls, then if you are the greatest businessman in the world, if you are Einstein in business trying to compete with me in the United States, you can't even get into the ring with those numbers.[115]

Perot's message appealed to a surprising number of Americans. In a July 5-7 *Wall Street Journal*/NBC News Poll, Perot (33 percent) led both Bush (31 percent) and Clinton (28 percent). Thirty-seven percent of the respondents declared him the candidate "most able to deal with the economy" compared to Bush and Clinton, each with 16 percent.[116]

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[113] Grayson 109.
[114] Ibid.
[115] Interview with Ross Perot. *The New Republic* 15 June 1992: 22.
[116] Grayson 115-16.

Although it is unlikely that Perot was ever really a "serious candidate" for President, the chord he struck among much of the population had definitely altered the political ease with which the agreement could be passed. In the end, of course, Clinton won the election and the NAFTA negotiations commenced soon after he took office.

Despite the cries of the opposition, the United States had several important objectives in pursuing the NAFTA. In the broadest sense, "the United States has a strong and abiding interest in promoting economic growth, political stability, and progress toward greater democracy in Mexico."[117] If able to achieve these goals a FTA would obviously be a benefit to the U.S. in that it would reduce the risk of instability along its southern border. Typical forecasts during the negotiations showed 500 jobs would be created in Mexico for every 100 jobs created in the U.S. This is due quite naturally to the difference in growth potential of an industrial superpower and a poor developing nation.[118] The potential for improvement in the Mexican economy is immense. As William Orme explains:

> NAFTA accelerates a liberalization trend that has already tripled bilateral trade and could soon propel Mexico past Japan as the second biggest market for American goods. Within a decade, at present growth rates, Mexico could be buying as much from the United States as Canada does today. If, prodded by NAFTA, the Mexican economy expands at the faster annual rate of 6 percent. . .it could surpass Canada as an American market early in the next century. At that pace, within 20 years Northern Mexico could expect to enjoy a standard of living comparable to that of the contiguous American Southwest today.[119]

More specifically the U.S. was interested in the expansion of trade with Mexico, already its third largest trading partner. In response to the many environmentalists who opposed NAFTA on the grounds that it would be detrimental to the earth, air and water

[117] Hufbauer 10.
[118] Orme. *Understanding...* 109.

along the Mexican border and eventually around the world; U.S. negotiators worked also to ensure that the agreement would "promote the efficient use of natural and human resources in the North American region."[120] At the same time, U.S. firms would stand to gain new opportunities assuming the NAFTA could spur Mexican reforms in trade, investment and intellectual property rights.[121] Theoretically, the stimulation of economic growth in Mexico would increase demand there for American goods and services. This would in turn increase employment opportunities in the U.S. In addition, the growth experienced by the Mexican economy would create more jobs and better wages which would thus reduce incentives for Mexican citizens to migrate illegally into the United States.[122]

## NAFTA and Agriculture

Although the original goal of the NAFTA was to end all tariff and nontariff barriers to trade, it quickly became apparent that a gradual phasing out of trade restrictions in key economic sectors would be necessary to allow these sectors to prepare for increased competition. As a highly sensitive sector in all three countries, agriculture was treated with extreme care. NAFTA has a number of special safeguards that can come into effect "if an industry is determined to be injured through the liberalization process."[123]

NAFTA's chapter on agriculture is divided into three separate bilateral agreements. Canadian-U.S. trade is still governed by the pre-existing Canada-U.S. free

[119] Ibid., 110.
[120] Hufbauer 11.
[121] Ibid.
[122] Ibid.

trade agreement. From a U.S. perspective, therefore, the most significant changes to result from NAFTA have been on the Mexican side. The agricultural trade relationship between the U.S. and Mexico is unique as it links two vastly different agricultural systems in a mutually beneficial arrangement.

In the last ten years, Mexico and the U.S. have engaged in a mutual process of reducing tariffs on agricultural goods and eliminating nontariff barriers to trade. NAFTA promised to eliminate all trade barriers "by converting nontariff barriers between the United States and Mexico to 'tariff-rate quotas' (TRQ) or ordinary tariffs, and then phasing out to zero all tariffs. . .over periods of up to 15 years."[124]

During the past decade, the U.S. has achieved a net surplus in agricultural trade. Mexico is the fastest-growing export market for U.S. agricultural goods. From 1986 to 1992, U.S. agricultural exports to Mexico have tripled.[125] Canada ranks a close second. In the past 5 years Mexico has imported, on average, $3.6 billion in U.S. agricultural goods.[126] Mexican agricultural imports to the United States have grown also, though much more slowly. Principal U.S. exports to Mexico include "feed grains, oilseeds, live animals, meat and dairy products" while Mexican exports to the U.S. are dominated by "coffee, fruits and vegetables and live animals."[127] U.S. exports to Canada consisted primarily of vegetables, live animals and meats and grains.[128]

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[123] B.J. Zangari. *NAFTA: Issues, Industry Sector Profiles and Bibliography* Nova Science Publishers, Inc., Commack, NY (1994) 43.
[124] Zangari 43.
[125] Ibid.
[126] David B. Schweikhardt and Kandeh K. Yumkella. "Economic Integration in North America: Consequences, Opportunities, and Challenges for the Michigan Food System" in *Policy Choices: Free Trade Among NAFTA Nations* ed. by Karen Roberts and Mark Wilson. Michigan State University Press, East Lansing (1996) 62.
[127] Zangari 44.
[128] Schweikhardt and Yumkella 62.

NAFTA's chapter on agriculture is divided into three separate bilateral agreements. Canadian – U.S. agricultural trade is still governed by the pre-existing Canada Free Trade Agreement. It establishes provisions for dealing with (1) tariff and nontariff trade barriers, (2) safeguard measures, (3) domestic supports, (4) export subsidies, (5) rules of origin, (6) commercial dispute settlement, (7) sanitary and phytosanitary standards and (8) investment opportunities.[129] A joint committee on agricultural trade was established to monitor the execution of these provisions.

According to the U.S. – Mexican bilateral agreement, all agricultural tariffs will be eliminated within a fifteen year transition period. Average U.S. agricultural tariffs are about 4 ½ percent and eliminating them will not result in substantial effects. An exception to this is the case of meat. Under the Meat Import Act of 1979, Mexican exports of fresh, chilled or frozen meat to the U.S. are limited.[130] Nontariff trade barriers were set to be revoked immediately or converted to the TRQ system which

> permits NAFTA partners to export a specified 'in-quota' quantity to the other partners at a tariff rate lower than the pre-NAFTA amount. All additional exports above the in-quota volume will be assessed a higher 'over-quota' tariff. The in-quota volume will increase by 3 percent annually, and the over-quota volume will be phased out by the end of the transition period.[131]

NAFTA's agricultural safeguard provisions provide for the suspension of further tariff reductions for a period of up to four years, "reestablishment of a rate not more than the MFN rate, and compensation to trading partners."[132] The NAFTA safeguard provisions are triggered on the basis of import volume, unlike the CFTA snapback mechanisms which are triggered by import price.

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[129] Zangari 45.
[130] Hufbauer 291.
[131] Schweikhardt and Yumkella 67.

NAFTA allows its members to retain domestic support programs due to their importance for agriculture in all three countries. The agreement does however encourage the adoption of prices which are "not trade distorting."[133] NAFTA promotes the elimination of export subsidies but allows its members to "match export subsidies offered by countries outside" the agreement.[134]

In an effort "to prevent third countries from using Mexico as an export platform to gain duty-free access to the U.S. market," U.S. negotiators insisted on rules of origin provisions that specified content requirements for products traded under NAFTA.[135]

Also under NAFTA, each country maintains its right to develop and enforce sanitary and phytosanitary measures designed to protect life and health from risks created by pests, diseases or contaminants. It does urge its members to conform to international SPS standards. These regulations, however "may exceed international standards if they are based on scientific evidence and are applied to both domestic and imported products."[136]

Finally, NAFTA eliminates investment barriers in agriculture in the U.S, Canada and Mexico. In particular, NAFTA makes investing in Mexico easier by reducing Mexican requirements for government approval of new investments and by giving American and Canadian investors rights to repatriate profits and capital flows in hard currency.[137]

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132 Zangari 47.
133 Ibid.
134 Schweikhardt and Yumkella 69.
135 Zangari 48.

## The Structure of Mexican Agriculture

Mexico's agricultural system has undergone vast changes since the NAFTA wheels really began turning in the early part of the decade. Along with his reforms in banking and commerce, President Salinas initiated a land reform program with the intent of modernizing his country's traditional farming sector. The *ejido* system he replaced was a collection of laws dating as far back as 1917. It was devised at that time "to reduce the power of pre - revolutionary landowning families by redistributing their huge holdings to the peasantry while ensuring that peasants retained their land.[138] Under this system, the state controlled *ejido* plots and allowed peasants to use them. The plots could not be purchased, sold, rented, or used as collateral. Of those eligible, slightly over half eventually received their land.[139] The Mexican government closely regulated land ownership outside the *ejido* structure as well. Individuals could not own more than 100 hectares of irrigated farmland and corporations were unable to own land at all.[140]

Because *ejidatorios* were unable either to sell or improve upon their land and because Mexican ownership laws prevented the development of larger, more efficient farms, Mexican agriculture remained, to a large extent, at the subsistence level. In an effort to restructure the *ejido* system along lines more conducive to the goals of a free market economy, Salinas "ended the land distribution program and opened the way for *ejido* privatization."[141] Under his program, *ejidatarios* were given titles to their lands however individuals were still prevented from owning more than 100 hectares.

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136 Ibid.
137 Zangari 49.
138 U.S. Congress, Office of Technology Assessment, *U.S.-Mexico Trade: Pulling Together or Pulling Apart?* ITE-545 (Washington, DC: U.S. Government Printing Office, October 1992) 200.
139 Ibid.
140 Ibid.

Foreigners were granted the same land ownership rights as Mexican citizens and both domestic and foreign corporations were allowed to own up to 2500 hectares (about 6200 acres).[142]

These reforms, along with a steady reduction in agricultural subsidies, were necessary for making "Mexican agriculture more efficient and competitive and less dependent on state support."[143] Although some displacement of small farmers has occurred (as in Chiapas where a peasant uprising brought the Mexican agricultural situation to the international stage) the reforms were vital to the development of a modern farming sector.

Even as Salina's reforms were being put into effect, the modern Mexican agricultural sector was already growing and integrating itself into the North American market. Driven by the desire to export and the need to feed its rapidly expanding population, Mexico is dependent on U.S. know-how, U.S. machinery and U.S. capital.[144] Still, Mexico's commercial farming sector lags far behind that of its northern neighbor.

Part of the problem is that despite efforts by the Mexican government to increase productivity by modernizing the traditional farming sector, the country is faced with limited water supplies and arable land. Only 12 percent of Mexico's land (67 million acres) is arable compared with 464 million arable acres in the United States. Of the approximately 30 million acres that could be irrigated, 60 percent continues to be rainfed.[145] Both Mexican and USDA officials estimate that Mexico is operating near its

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141 Tom Barry. *Zapata's Revenge: Free Trade and the Farm Crisis in Mexico* South End Press: Boston, MA (1995) 12.
142 *U.S. – Mexican Trade*... 201.
143 Barry 13.
144 *U.S. –Mexican Trade*... 201.
145 Ibid.

maximum productivity level in agriculture.[146] As a result, Mexico relies heavily on the U.S. both as a market for its exports and as a source for needed imports.

Mexican agricultural output is dominated by crop production which accounts for 58 percent of total output in 1992.[147] Livestock, which accounts for 33 percent of agricultural output is its second largest commodity, followed by forestry, fishing and hunting which together total the remaining nine percent. Altogether, agriculture makes up about nine percent of Mexico's gross domestic product (GDP).[148] Of this nine percent, the modern farming sector produces roughly three-fourths of total output. The remainder continues to be produced by the traditional sector which still constitutes over half of the agricultural labor force.[149]

Mexico has historically been a closed, state-controlled economy.[150] In the past it has relied on tariffs as high as 100 percent and an array of non-tariff barriers "including domestic content requirements, restrictions on investment, performance requirements to keep out exports, and import-licensing requirements."[151] By the mid 1980's, it was clear to the Mexican government that these policies, like the *ejido* system, did not help the majority of their people but rather contributed to widespread poverty. From 1987 to 1992, the Mexican government began systematically reducing its trade and investment barriers.[152] While these policies resulted in a net increase in imports, they also forced improvements in Mexican firms'competitiveness.

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146 Zangari 45.
147 *U.S. –Mexican Trade…* 199.
148 Ibid.
149 Ibid., 199-200.
150 U.S. House of Representatives. Hearing before Committee on Ways and Means. "North American Free-Trade Agreement (NAFTA) and Supplemental Agreements to the NAFTA" 103-48. 14, 15, 21 ,23 September 1993: 20.
151 Ibid.
152 Ibid., 19.

## Mexican Beef Cattle Industry

An industry in which a network of non-tariff barriers was retained however, is beef. Even during the NAFTA negotiations, the Mexican government was attempting to place new restrictions on American beef imports. That year, a ban on all U.S. boxed beef was announced by the Mexican state of Nuevo Leon, the goal of which was to force U.S. recognition of Nuevo Leon grading standards.[153] Although this ban was ultimately avoided, Mexico did demand that "frozen boxed beef, which constitutes the majority of [U.S.] beef exports, ...be held along the border until a sample is taken from every truck and transported by a Mexican inspector into Mexico for inspection. The sample is then ...defrosted and inspected for gross contamination[154]. The effect of this procedure is to prevent truckloads of U.S. beef from arriving at their destinations on time. On June 16 of the same year, the Mexican government announced that it would no longer allow American beef, pork, lamb or poultry to enter Mexico unless it came from a Mexican accredited establishment.[155]

The domestic industry that the Mexican government was attempting to protect is small when compared with the huge beef cattle industry of the United States. In the early 1980's, fully 86 percent of the land under agricultural exploitation in Mexico was devoted to cattle ranching. In 1995, Mexico's herd accounted for four percent of world beef production while the U.S. share was 25 percent.[156] While areas of Mexico like the

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[153] U.S. House of Representatives. Hearing before Committee on Agriculture. "Review of Issues Related to the North American Free-Trade Agreement – NAFTA" 102-70. 8 April, 9 July, 16, 23, 30 September 1992: 232.
[154] Ibid., 233.
[155] Ibid.
[156] "Beef Economics" *National Cattlemen's Beef Association Website* http://www.beef.org/librref/beefhand/econ1.html#1 4 March 1998.

wet, southern region of Huasteca provide outstanding ranching opportunities, the industry suffers from Mexico's inability to produce enough grain to feed more cattle.[157] In addition, the cost of importing grain approximately offsets "Mexico's labor cost advantages for feeding and slaughtering cattle."[158] Even if improvements were made in Mexico's transportation system, costs would decrease only slightly below those in the U.S. Since "there is substantial U.S. overcapacity, and per capita beef consumption is decreasing, neither feeders nor packers have much reason to contemplate investments in Mexico."[159] As a result, there is limited potential for growth in the Mexican industry.

Mexican trade barriers on beef do little to further domestic sales because virtually all of the country's beef products are already sold within the home market. Mexican ranchers do "ship feeder cattle to U.S. producers for fattening and slaughter."[160] They also purchase semen and breeding stock from their American counterparts.

Mexico also lacks cost advantages in the production, slaughter and packing of beef. As a result, it imports $472 million in U.S. beef, making it the third largest export market for American red meats.[161] The majority of this beef goes to feed tourists and wealthy consumers, as over half of Mexico's population is unable to afford the product.

## Structure of U.S. Agriculture

Once a highly labor intensive sector, which provided low incomes to most workers, American agriculture has in recent decades been transformed into "a highly

[157] Frans J. Schryer. *Ethniciy and Class Conflict in Rural Mexico* Princeton University Press: Princeton, NJ (1990) 152.
[158] *U.S. – Mexican Trade...* 207.
[159] Ibid.
[160] Ibid.
[161] Ibid.

capital intensive sector capable of providing incomes comparable to other sectors."[162] Historically, the classic American values of individualism and independence from government interference kept U.S. farmers and the government from developing a close relationship. With the exception of the Homestead Act of 1862 which provided inexpensive land to would-be settlers, farmers paid little attention to the agricultural legislation of the nineteenth century.[163] It wasn't until the Great Depression of the 1930s that farmers seriously began pushing the government for assistance. By this time, American farming had grown relatively commercialized and market dependent.[164] To cope with the disaster, Congress passed the Agricultural Adjustment ACTS (AAA) of 1933 and 1938. These measures created price supports which were enforced by supply controls like acreage allotments. With the passage of these acts, the United States forfeited its export markets for price supported commodities."[165] In the environment of the Great Depression, such actions seemed fair and reasonable, particularly since economists of the day argued "that fundamental economic forces chronically disadvantage agriculture in the market relative to the nonagricultural sectors."[166] In addition, it was believed that agricultural markets were at a much greater risk of instability than nonagricultural markets. As a result, farm families were perceived as generally poorer than nonfarm families and societal pressure mounted in favor of aid.[167]

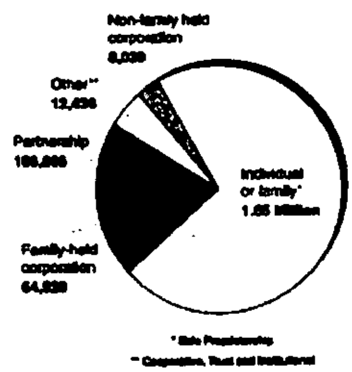
While popular perception remains affected by these views, the reality is that on average, U.S. farmers of all sizes earn at least as much net income as those in other

[162] *National Policies and Agricultural Trade: Country Study United States* OECD: Paris (1987) 13.
[163] James T. Bonnen "Institutions, Instruments, and Driving forces Behind U.S. National Agricultural Policies" *U.S.-Canadian Agricultural trade Challenges: Developing Common Approaches* ed. by Kristen Allen and Katie Macmillan. Resources for the Future: Washington, DC (1988) 23.
[164] Ibid.
[165] Ibid., 24.
[166] Ibid., 26.

sectors.[168] In addition, increasing efficiency in recent years has allowed agriculture to integrate itself into the general economy "through its input purchases, its participation in credit and capital markets and through the evolution of a more sophisticated agro-food system adding value at diverse points throughout the chain."[169]

Despite changes in the system, U.S. agriculture is still dominated by the family farm. According to the 1992 U.S. Census of Agriculture, only 3.6 percent of U.S. farms are owned by corporations. Most of these are themselves family owned with fewer than ten stockholders. Only 0.4 percent of U.S. farms are non-family corporations.[170] (See chart.)[171]

**Structure of U.S. Agriculture**



* Sole Proprietorship
** Cooperative, Trust and Institutional

The U.S. agricultural structure is unique in that less than two percent of the U.S. population is involved in farming, but U.S. agriculture produces enough to feed the

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167 Ibid.
168 Ibid., 37.
169 *National Policies* 13.
170 Beef Economics
171 Ibid.

nation as well as 70 million people around the world.[172] American farmers are the most productive in the world. Today on average, each U.S. farmer produces enough food and fiber to supply 129 persons. Despite the relatively small number of people directly involved in farming, agriculture remains "the largest segment of the U.S. economy, with sales of $174.4 billion in 1993."[173]

The geographical diversity enjoyed by American agriculture is such that a wide range of crops and livestock and livestock products are produced.[174] While sales of livestock and livestock products have declined in recent years, beef and veal remains the single most important U.S. agricultural commodity.

## U.S. Beef Cattle Industry

As the largest sector of the largest sector of the American economy, the concerns of the beef industry are of considerable importance. Unlike most agricultural products in the U.S., cattle and beef production operates within the free market. Prices are set by supply and demand and the federal government does not sponsor price support programs for beef.[175] The structure of U.S. "beef production involves two major groups of livestock producers, cow-calf operators and feedlot operators"[176] Cow-calf operators maintain the herds and raise calves. They also decide how many cows to breed and at what time calves should be sold. Feedlot operators "purchase feeder cattle and calves at varying weights and feed them to slaughter weight and condition for sale as fed beef."[177]

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[172] Ibid.
[173] Ibid.
[174] *National Policies.* 14.
[175] Beef Economics
[176] Touba Bedinger and Barry W. Bobst. *A Dynamic Analysis of Demand and Supply Relationships for the U.S. Beef Cattle Industry and their Policy Implications* University of Kentucky Press: Lexington (1988) 5.
[177] Ibid.

Nonfed beef includes "cull cows and bulls and other cattle not placed in feedlots," and usually comes directly from cow-calf producers.[178]

Because the industry is characterized by relatively little vertical integration, market transactions occur at several different levels. Prices of feeder cattle, slaughter cattle and retail prices are all determined simultaneously.[179] In addition, prices of beef cattle are not distinguished on the basis of producer but rather by perceived quality. As a result, market participants are price takers.[180]

In the period from 1945 until 1976, beef consumption in the United States boomed. At the end of World War II, Americans consumed on average 71.3 pounds of beef and veal. By 1976, that amount had shot up to 129.8 pounds.[181] At about that same time, reports detailing the possible carcinogens found in beef as well as other health hazards associated with diets high in red meat began to appear. These reports, coupled with increasing retail prices caused a shift in American's beef consumption patterns with which the industry is still coping. In 1980, consumption dropped to 105.5 pounds per capita.[182] By 1996 it had fallen to 67.6 pounds. Consumption seems to have stabilized at about that level.[183]

Despite the huge decrease in U.S. consumption, beef production is still responsible for nearly one-fourth of all U.S. farm income. In 1995, sales of cattle and calves totaled $34 billion, and included 18.3 percent of all cash receipts from U.S. farm

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178 Ibid.
179 Ibid. 7.
180 Ibid.
181 Jimmy M. Skaggs. *Prime Cut: Livestock Raising and Meatpacking in the United States 1607-1983* Texas A&M University Press: College Station (1986) 166.
182 Ibid. 168.
183 Beef Economics.

marketings.[184] Also that year, beef sales represented $50.3 billion of the GDP, or nearly one percent of the total.

The drop in U.S. consumption over the last two decades has urged the U.S. beef industry to examine new marketing techniques as well as new markets for its products. In response to health and diet concerns, cattle ranchers and meat packers began "to breed slimmer animals and offer leaner cuts."[185] Today an average roast contains 30 percent less fat than it did just 10 years ago and many other cuts of beef are as lean as chicken.[186] In addition, in cooperation with the United States Department of Agriculture, beef producers began using new labels for beef like Prime, Choice and Select. These labels allowed beef producers to advertise on the package that the meat inside was leaner and of a higher quality.[187] The American Beef Council has also initiated a nationwide television marketing strategy dedicated to exacting "greater recognition of beef's positive role in healthful diets."[188]

Beef producers have also accepted that "exports are the future for growth in the cattle and beef industry."[189] In the early 1980's, beef exports accounted for only one-half of one percent of beef sold. By 1996 that number had increased to eight percent – the value of these exports totaled over $3.05 billion.[190] In 1994, the United States produced 25.1 percent of the world's beef supply with less than 10 percent of the world's beef

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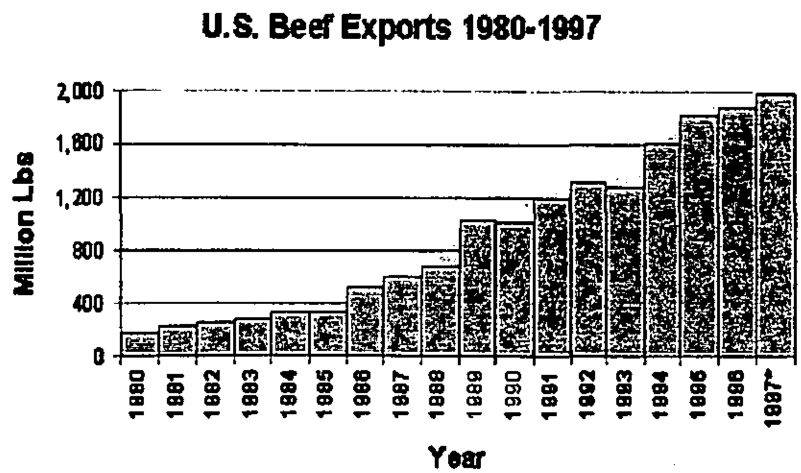
184 Ibid.
185 Wendy Marston. "Beef Makes a Comeback" *Health* 10-6 (November-December 1996): 34.
186 Ibid.
187 Skaggs 169.
188 Chuck Lambert. "Outlook for 1997: Beef Supplies Will Be Ample" *NCBA Website.* http://www.beef.org/librfacts/fs_sup97.html 4 March 1998.
189 "Position Paper: International Markets" NCBA Website. http://www.beef.org/librfacts/fs_int.html 4 March 1998.
190 Ibid.

animals.[191] These figures make the United States the world's second largest exporter of beef after Australia. Already, American producers are looking to the "younger, faster growing populations in countries with emerging economies for a larger proportion of total beef demand."[192] (See Graph.)[193]




While targeting foreign populations increases the consumer base to which beef producers sell, it also increases the potential for volatility in the industry "as exchange rate fluctuations, domestic policies within primary importing countries and international

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[191] Beef Economics
[192] Position Paper
[193] Ibid.

trade policies are reflected in the total demand for U.S. beef."[194] These factors have led to increased cooperation between American beef producers led by organizations such as the National Cattleman's Beef Association (NCBA) and the federal government. NCBA and others have in recent years lobbied strenuously in favor of reduced tariffs and expanded markets. In the early 1990's for example they vigorously supported the passage of the free trade agreement with Canada and Mexico.

## What Has NAFTA Meant?

From the U.S. beef industry standpoint, NAFTA has been wholly positive. Although the agreement has been criticized for driving down U.S. cattle prices due to an increase in imports from Canada and Mexico, "the fact is that NAFTA did not affect U.S. regulations regarding cattle imports."[195] The only import restrictions posed by U.S. trade laws were health and safety regulations which are still in place. NAFTA'S only major effect therefore was its elimination of tariffs on exports to Mexico. Prior to NAFTA, the U.S. imported from 1 to 1.3 million cattle per year from Canada and Mexico.[196] During 1994, NAFTA's first year, "exports of beef and variety meats to Mexico increased nearly 47 percent in tonnage and 71.5 percent in value."[197] The Mexican peso crisis of 1995 caused a decline in U.S. beef exports that year, but 1996 exports rose by more than 70 percent. This trend continued into 1997. During the first five months, U.S. beef exports to Mexico were 82.5 percent more than during the same period in 1996. As a result of

[194] Ibid.
[195] Chuck Lambert. "Cattle Imports from Mexico and Canada" *NCBA website.* http://www.beef.org/librfacts/fs_mcexp.html 4 March 1998.
[196] Ibid.
[197] ibid.

these figures, Mexico last year overtook Canada to become the second largest export market for U.S. beef and variety meats behind only Japan.[198]

Statistics on U.S. imports of Mexican beef are less clear. While imports of Mexican feeder cattle increased 44.3 percent in the first six months of 1997 compared to imports during the same period in 1997, the increase actually represented a decline in imports as compared to the years 1993-95. U.S. imports of Mexican slaughter cattle also seemed to decrease in 1997.[199] (See charts.)[200]

IMPORTS OF MEXICAN SLAUGHTER CATTLE
CALENDAR YEAR-TO-DATE COMPARISON

| | Arizona | California | New Mexico | Texas | Total | Annual Total |
|---|---|---|---|---|---|---|
| 1993 | 0 | 0 | 415 | 0 | 415 | 1,041 |
| 1994 | 0 | 0 | 0 | 0 | 0 | 355 |
| 1995 | 2,351 | 0 | 523 | 63,446 | 66,320 | 70,758 |
| 1996 | 0 | 0 | 0 | 722 | 722 | 722 |
| 1997 | 0 | 0 | 0 | 0 | 0 | |
| 96%95 | N/A | N/A | N/A | 0.0% | 0.0% | |

Source: USDA/APHIS Year-to-date through July 19, 1997

IMPORTS OF MEXICAN FEEDER CATTLE
CALENDAR YEAR-TO-DATE COMPARISON

| | Arizona | California | New Mexico | Texas | Total | Annual Total |
|---|---|---|---|---|---|---|
| 1993 | 180,094 | 1,056 | 10,785 | 441,331 | 603,286 | 196,570 |
| 1994 | 129,221 | 0 | 2,499 | 360,618 | 492,338 | 933,693 |
| 1995 | 226,401 | 0 | 24,748 | 677,724 | 928,873 | 378,395 |
| 1996 | 97,661 | 0 | 267 | 112,676 | 210,694 | 423,873 |
| 1997 | 114,260 | 0 | 0 | 189,713 | 303,973 | |
| 96%95 | 117.0% | N/A | N/A | 160.4% | 144.3% | |

Source: USDA/APHIS Year-to-date through July 19, 1997

The experiences of the U.S. beef industry under NAFTA are, for the most part consistent with the experiences of U.S. agriculture as a whole. More specifically, in 1996 alone NAFTA resulted in agricultural exports to Canada exceeding $6.4 billion and $5

198 "Benefits of NAFTA Showing in Mexico" *NCBA Website.* http://hill.beef.org/Foreign Trade/bonsim.htm 4 March 1998.
199 Lambert "Cattle Imports."

billion to Mexico.[201] From 1993 to 1996, U.S. agricultural exports to Mexico increased from $3.6 billion to $5.4 billion.[202] As the largest supplier of agricultural goods to Mexico, the U.S. accounts for 75 percent of the country's imports. U.S. agricultural exports to Mexico enjoy an average annual growth rate of 15 percent while the rate for overall U.S. agricultural exports is 12.4 percent. Also from 1993 to 1996,

> combined sales to Mexico of 12 key commodities – corn, wheat, field seeds, vegetable oils, cotton, sugar and related products, barley, pulses, beef and veal, rice and soybeans – rose by $2 billion, up more than 150 percent.[203]

The areas in which U.S. exporters have enjoyed the greatest gains are naturally those areas in which Mexico previously employed high tariffs. Vegetable oils, processed meats and tree nuts, for example were faced with tariffs ranging from 15 to 20 percent. Tariffs on animal and vegetable oils, farm animals and meat products were 12.0 and 6.5 percent.[204]

NAFTA has also been an overall benefit to Mexican agriculture. Mexican imports to the U.S. "grew from $2.7 billion in 1993 to 3.8 billion in 1996, reflecting an 11.6 percent average annual increase."[205] This represents a modest increase for most areas of Mexican agriculture. Its largest export gains during the period were in fresh and processed tomatoes, other vegetables and peanuts.[206]

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200 Ibid.
201 "NAFTA Good for American Agriculture" Farm Bureau release. 15 July 1997.
202 "Study on the Operation and Effects of the North American Free Trade Agreement" Report to Congress. July, 1997: 88.
203 Ibid.
204 Ibid., 89.
205 Ibid., 88.
206 Ibid. 1-2.

## Expanding NAFTA

NAFTA was never intended to remain merely a trilateral pact. Since 1990 when President Bush outlined his "Enterprise for the Americas Initiative" efforts have been made to improve prospects for other Latin American countries to join in the agreement. The Enterprise for the Americas was a program designed to reduce debt, boost investment and remove trade barriers throughout the Western Hemisphere.[207] While the program was soon abandoned by the Bush Administration, the excitement it had generated in Latin America was significant. The idea had been planted that eventually, countries of Central and South America would be linked economically with the United States. While Chile was the country identified as the one most likely to be named fourth party to the agreement, others began pressuring the U.S. for consideration.[208]

Of special importance from a beef industry standpoint is the possibility of the addition of Argentina. The Argentine Pampas is world-renowned for the high quality grass-fed beef it produces. Encompassing approximately fifty million hectares, the Pampas is an extraordinarily rich agricultural area.[209] Its soils are extremely deep and fertile and rainfall averages range from twenty to forty inches annually.[210] The land is devoted primarily to the production of field crops and livestock. Argentine cattle are raised on "natural or seeded pasture, forage crops, and some byproducts of grain production" and are "rarely fattened on harvested grains."[211] This makes Argentine beef increasingly desirable in the United States where health and environmental concerns have a significant impact on consumer demand. In 1995, despite a two-year drought which

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207 Orme 159.
208 Orme 166.
209 Lovell. S. Jarvis *Supply Response in the Cattle Industry: The Argentine Case* Division of Agriculture and Natural Resources: Oakland, CA (1969) 1.

caused a severe shrinkage of the Argentine cattle herd, its exports to the U.S. still totaled 81,000 tons.[212] Argentine export estimates were forecast to increase to 480,000 tons in 1997 and to 750,000 tons by the year 2000.[213] Securing improved access to other North American markets will be a vital part of Argentina's export strategy in the near future. Already, Argentina has undergone negotiations with the U.S. which resulted in its being named a "low-risk" country with respect to foot-and-mouth disease.[214] Argentina's excellent productive capacity along with the appeal of its product makes its inclusion in NAFTA a potential concern to U.S. beef producers. Currently the U.S. places a 20,000 ton tariff quota allocation on the importation of Argentine uncooked beef (i.e. chilled or frozen). The adoption of a trade agreement could thus increase pressure on U.S. beef producers as such restrictions would no longer be in place.

While Argentine beef does have the potential to create some competition for the U.S. beef industry, Argentina's overall importance to the U.S. is limited. In fact, the significance of Latin America as a whole is relatively minor. Despite its economic growth in recent years, Latin America still accounts for just fifteen percent ($63 billion in 1991) of U.S. sales worldwide ($421.8 billion) and Mexico alone makes up half of that figure.[215] From the U.S. perspective, therefore, Latin America without Mexico is still a marginal player.

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210 Ibid.
211 Ibid.
212 *The International Markets for Meat Third Annual Report* World Trade Organization: Geneva (August, 1997) 21.
213 Ibid.
214 Ibid 23.
215 Orme 167.

## The Future

While both U.S. and Mexican gains in agriculture were relatively moderate during the first three years of the NAFTA, the agreement does offer the potential for greater gains in the near future. NAFTA's 15-year phase out period for agricultural trade means that only part of the liberalization required by the agreement has been achieved. This fact indicates that gains should continue on both sides at least until 2008 when the phase out period comes to a close and all trade barriers and TRQs must be eliminated. Aside from mere export increases, NAFTA has had "an overall positive effect on U.S. commodity markets, reinforcing the trend toward greater integration of the North American agricultural marketplace."[216] The warnings of doom and gloom for American workers heard from protectionists and other NAFTA opponents during the 1992 Presidential Election proved to be essentially groundless. The agricultural gains from NAFTA may have been modest but they have been gains.

In addition, three years of NAFTA have indicated the mutually important roles shared by the United States and Mexico. While the peso crisis of 1995 was Mexico's most severe economic recession since the 1930's, both the Mexican economy and U.S. exports recovered more quickly than in the less severe Mexican financial crisis of 1982. Part of this speedy recovery was due to "economic reforms locked in by NAFTA."[217]

The greatest benefit of the agreement to Mexico may thus be the improved financial stability that has resulted from the formal linkage with its northern neighbors. And from a U.S. standpoint, aiding the Mexican economic recovery was necessary as

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216 Ibid 90.
217 Ibid iii.

U.S. exports to that country, not only in agriculture but across the board, dropped severely.

Overall then, it is in the interests of both Mexico and the U.S. to maintain their commitments to the North American Free Trade Agreement. The benefits of expanding NAFTA to include other countries of Latin America are, at present, not so clear. Without Mexico, Latin America accounts for only seven percent of total U.S. trade. In addition, many of its economies, like Brazil and Peru remain in need of serious "reforms to break inflation, spur investment, and settle outstanding debts."[218] A free trade agreement with these countries would be a risky venture. The potential financial risk faced by U.S. investors seems unnecessary especially since there is less reliance on the part of the Latin American countries on the U.S. market. While the U.S. is already the region's single biggest export market, it currently accounts for only two-fifths of Latin America's total exports.[219] Even that figure is high, as Mexico is by far the region's largest exporter. The rest of Latin American is simply not as dependent on Washington as is Mexico. Rather, many of the countries of Central and South America look to other parts of the world for cultivating special economic relationships. Peru, for example has in recent years focused on improving relations with Japan and Chile has forged partnerships in the South Pacific. Argentina has for years been linked to Italy as Brazil has to Portugal.[220]

This is not to say that membership in NAFTA should never be extended beyond Mexico. Instead, like the GATT, membership should eventually be open to all countries which agree to adhere to its requirements and which meet its entrance specifications.[221]

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218 Orme 170.
219 Ibid., 167.
220 Ibid., 170.
221 Hufbauer 173.

First priority however must be the consolidation of the existing North American free trade area.

The NAFTA is a young institution. From an agricultural standpoint, it is still not even fully underway. While its implications have been positive for essentially all parties thus far, time must be taken to ensure that the new trade relationships develop properly.

The primary task for the current members of NAFTA then will be to maintain their commitments to the agreement over the next several years. Where expansion is concerned, new emphasis should be placed on developing special relationships with Latin America, but the formal extension of membership should be postponed until the current agreement has had more time to develop.

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