North American Free Trade Agreement

A Hesitant Handshake Between Neighbors

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CHAPTER 1 - INTRODUCTION

On February 5, 1991 a joint statement was issued by the governments of Canada, The Republic of Mexico, and The United States of America. Although, this statement was not a surprise to many inhabitants of North America or even the rest of the world, its implications have initiated a road for North America without precedent in the last 500 years. A road not traveled on since Christopher Columbus first set foot here. The statement, short and concise will have ramifications, not only for the three countries involved, but also for the rest of the world for generations to come. The statement reads as follows:

"The President of the United States, George Bush; the President of the United Mexican States, Carlos Salinas de Gortari; and the Prime Minister of Canada, Brian Mulroney, announced today their intention to pursue a North American Free trade agreement creating one of the world's largest liberalized markets.

Following consultations among their ministers responsible for international trade, the three leaders concluded that a North American free trade agreement would foster sustained economic growth through expanded trade and investment in a market comprising over 360 million people and $6 trillion in output. In so doing, the agreement would help all three countries meet the economic challenges they will face over the next decade.

Accordingly, the three leaders have agreed that their trade ministers should proceed as soon as possible, in accordance with each country's domestic procedures, with trilateral negotiations aimed at a comprehensive North American free trade agreement. The goal would be to progressively eliminate obstacles to the flow of goods and services and to investment, provide for the protection of intellectual property rights, and establish a fair and expeditious dispute settlement mechanism." [71]

The so called North American Free Trade Agreement is not a simple agreement between neighboring countries, but also an agreement which will attempt to unite not only diverse cultures but open gateways between two peoples that, although have been neighbors for centuries, have mistrusted each other throughout history. This agreement is not only a blending of economies, but a blending of cultures. Cultural aspects such as spooning salsa on eggs by Americans, or the drinking of Diet Coke by Mexicans have been long in coming. This *cultural blending* has been realized as the countries have opened up to each other. The ability to trade and exchange ideas without losing each others' national identity will be the true test of the blending of these cultures, and a true opening of economics between neighbors.

The proposed free trade agreement is with precedent, in terms of economy. On July 1, 1967, the world witnessed the creation of the Common Market. The European Communities, as it is officially known, is the unification of twelve countries with the expressed intention of removing all barriers to trade movement of capital and peoples by 1992. The twelve countries comprising this market are: Belgium, Denmark, France, West Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, and the United Kingdom. The Common Market will also incorporate 60 other nations under the Lome Convention. [81]

Realizing the implications of the Common Market and as President Bush so apply stated; "As we prepare to join a world linked primarily by economic, and not military competition" [22] we begin to realize the importance to North America to begin its quest for a new understanding of its people and its cultures and we should encourage our diverse governments to seek a unification of not only North America but also a unification of the Americas.

The North American Free Trade Agreement will not be an easy undertaking, but with the changes looming in the horizon and the changes that have already taken place the battle lines have already been drawn and the warriors have assembled. President Salinas de Gortari has stated that the battle on FTA will be fought; "between forward-looking visionaries and backward-looking protectionists." [21] Let us all hope that our respective peoples become forward-looking visionaries and not become stagnated within our own fears.

This paper is an attempt to show the reader an overview of the proposed Free Trade Agreement. Any agreement between two countries is a complex transaction, and more often than not, emotion and not reason govern the results of any such undertaking. It is the intent of the author to show the reader some of the basic roadblocks in such an agreement and most importantly to get the reader to stimulate his mind into formulating new thoughts and understanding of the potential that this agreement has, not only economically, but also in the souls of the population of the Americas. This paper in no way intends to answer all the questions that arise, or even ask all the questions that 360 million people are probably asking themselves. It is intended to serve as a vehicle for the reader to grasp a very basic understanding of the issues that will challenge our leaders as they enter into negotiations for our respective populations. The reader will be challenged to look at the issues through the eyes of each individual country.

CHAPTER 2 - WHAT IS A FREE TRADE AGREEMENT

There are many fallacies expressed about the reality of a free trade agreement. Because of the misconceptions that abound about this agreement, many fears and horror stories have been unnecessarily raised which have caused concern among the populations that inhabit the area. The proposed free trade agreement is a treaty between any two or more countries in which the countries agree to essentially lift all barriers to commerce, such as tariffs and quotas. Governments of countries use these barriers to protect the pursuit of industries and jobs they feel might be threatened by international competition. [18] The Free Trade Agreement is not an opening of borders or the interference of one country over another, it is merely an agreement which could allow consumers of all the countries involved enjoy the benefits that each country has to offer. The Canada, Mexico and U.S. proposed agreement stands to benefit 360 million inhabitants in North America. [23] This agreement would essentially combine Canada's natural resources with The United States' technological proficiency, and Mexico's inexpensive labor, while benefiting all three countries economically. [46]

When former U.S. president, Ronald Reagan first proposed a "North American Accord" in launching his campaign for the United States presidency a decade ago, the idea seemed very unlikely, because of the international attitudes voiced by the three countries. In the early part of June 1990, United States president George Bush and Mexican president Carlos Salinas de Gortari met in Washington and agreed to begin negotiating an accord between their respective nations. [44 and 72] Although, president Carlos Salinas de Gortari had wanted to keep these negotiations confidential until he could muster enough suitable support for the treaty within his own government, ***The Wall Street Journal*** revealed on March 27, 1990, that the United States and Mexico had begun secret negotiations on a Free Trade Agreement. [12 and 43] In October of 1990, Canada's International Trade Minister, John Crosbie announced; "Canada will enter talks with The United States and Mexico on creating a continental Free Trade Zone with a combined market of 360 million people." [46] It was not until, February 5, 1991 that the three governments issued a formal announcement, officially declaring that negotiations were about to begin between their respective countries on this historic making accord. [71] [see announcement pg: 4]

Any agreement entered into, between any two countries must provide benefits for the two entities, involved or the countries would not consider entering into any such negotiations. Because of Canada's present location and the fact that Canada already has an agreement with The United States; Canada stands to benefit the least from FTA. Never the less, if an agreement is reached between Mexico and The United States without including Canada, Canada then stands to find itself fighting to maintain its consumers and avoid losing its industries and jobs to The United States and Mexico. [48] According to Canadian experts, Canada stands to gain from FTA by exporting knowledge and technical expertise in the following industries consisting of agriculture, engineering, pollution control systems, public transit and telecommunications, to Mexico. [50] On the other hand, unlike Canada, Mexico is the country that stands to gain the most from The Free Trade Agreement.

The reader should be aware that even if this agreement is not implemented, the current brisk trade between Mexico and The United States will continue to grow with or without the accord. [(41)] But the proposed treaty would benefit Mexico even more in two very important areas. In the long term, this agreement would provide Mexico with access to U.S. consumer markets. [(56)] It would promote a modern free market economy with access to: scale economies, money, and technology. [(8)] In the short term, Mexico would experience an influx of much needed foreign investment. [(56)] It would be a critical move to show Mexican and foreign investors yet one more signal of Mexico's commitment to much needed investments. [(8)] According to president Salinas de Gortari, a Free Trade Agreement would benefit Mexico in the increase of repatriated flight capital, a stronger peso, enhanced international and political standing, and guaranteed access to the world's largest market. [(34)] Mexican companies would benefit from the infusion of new technology and greater access to the affluent U.S. market. [(41)] As Mexico assimilates into FTA; new jobs would be created for its population, thus developing more disposable income and raising the populations' standard of living. [(72)] Most experts agree that the Free Trade Agreement is vital to Mexico in attracting foreign investment. [(31)] According to these experts, Mexico would attract approximately $50 billion of flight capital under the proposed agreement, [(72)] while also attracting approximately $24 billion in foreign economic investment. [(30)] Aside from the investment implications, Mexico would benefit by increasing exports that currently have high U.S. tariffs, low U.S. import quotas, or U.S. price support programs. These would include; agriculture, auto parts, steel and textiles. [(34)] The last and most reluctant country to enter these negotiations, The United States is the country that would experience a small initial benefit, but would experience significant advantages in the long term.

Benefits to The United States are numerous and more abstract then in the formerly mentioned countries. American companies, particularly larger ones, will have better access to inexpensive labor and basic building parts. The Free Trade Agreement would allow the United States access to a growing export market. [(6)] It is estimated that Mexico would provide over 100 million consumers by the year 2000, [(72)] which would be a significant increase from the current market of approximately 20 million Mexican consumers; thus the increase in consumers would be significant. [(78)] As a by-product, Mexican workers would have the opportunity to find more jobs in Mexico and not hinder American resources by looking for jobs in the United States. [(52)] Another benefit to American companies would be the ability to own 100 percent of their enterprises within Mexico without having to depend on Mexican citizens to form new investment enterprises. [(6)] It should also be noted, that it is to the benefit of The United States to have Mexico prosper, because Mexico sits on Americas' doorstep. If the economy is bad in Mexico, then that economy spills over into the U.S. On the other hand if the economy is good in Mexico, Mexicans would spend more on American consumables, and Mexican immigration would diminish as Mexicans find more jobs within Mexico. Mexicans currently spend approximately 15 cents out of every extra dollar on U.S. consumer goods, while Asians spend almost nothing on those same goods. [(8)] The only benefit the United States is likely to seek and probably will not receive, is oil. The United States would like Mexico to open up its undercapitalized oil industry to Americans. Because of Mexico's attitude towards its natural resources, especially oil, as demonstrated in its constitution, it will probably not relent. The benefits that each country would receive, under the FTA are significant, but the North American region as a whole would benefit the most.

Although the United States has tended to regard the opening of trade with Mexico as a threat, it has failed to see the potential advantages. Both countries would benefit mutually as trade increases trilaterally. [(8)] Some experts have speculated that the region has the potential to become one of the world's greatest industrial giants. [(27)] Trilaterally, the three countries would benefit magnificently because the treaty would increase demand for U.S. and Mexican labor while adding to the income of workers in the three countries. It will have a positive impact on the Canadian and U.S. economies, while having a substantial impact on the Mexican economy. The trade pact would slightly increase the total return of U.S. capital investments, while definitely increasing the return on Mexican capital investments and leading to significant additional savings in Mexico. The treaty would reduce the price consumers pay for imports while increasing the price producers receive for their exports to the rest of the world. (67) The Canada, Mexico, and United States Free Trade Agreement has the potential to output $6.4 trillion annually while servicing a population of 355 million people; whereas, the 12 nation European Community only has the potential to service 324 million inhabitants with a combined output of only $4 trillion annually. (44)

Unlike Mexico, Canada and The United States have been to the negotiating table before. Canada and The United States negotiated a Free Trade Agreement bilaterally in 1988, after a bitter debate within Canada. (50) This Canadian-U.S. FTA was initiated on January 1, 1989. (45) It has been argued that the United States and Canada Free Trade Agreement was a historic breakthrough in American international trade relations. (75) As with any agreement which benefits some it must also harm others to gain its objectives. Terror stories flourish about the effects of this agreement and who benefited the most. The Canadian Labor Congress has estimated that Canadians lost approximately 105,000 jobs since the Canada-U.S. FTA went into effect (45), while Buffalo officials on the American side say that among 19,000 to 20,000 new jobs were created in their city. (17) According to the Canadian government, in January of 1989, there were 12,436,000 jobs, twenty-one months later, in November 1990 the same government reported 12,497,000 jobs. According to the labor associations 208,000 manufacturing jobs had been lost since the FTA was initiated. What they have neglected to mention, was that in the same time period, 282,000 new service jobs had been created. (49) In a survey conducted after the first 21 months under FTA, 57% of the Canadians surveyed felt that Canada's economy was hurt, and only 7% feel that it helped. (46) It makes the author question, if the Canadians surveyed were reacting to horror stories supplied from labor, or from personal experience. A careful analysis would need to be conducted on the long range effects of the Canada-U.S. FTA to see if any of the economies were really hurt or suffered any long term damage.

CHAPTER 3 - CURRENT TRADE BETWEEN CANADA, MEXICO and U.S.

According to president, Carlos Salinas de Gortari, the current world trade is concentrated around the following three regions, the U.S. and Canada, Europe, and Japan and the Pacific Asian countries. (52) The trade regions will change significantly, once the proposed agreement goes into effect. In order to understand any potential effects that a Free Trade Agreement might have on North America the reader should become familiar with the current trade practices of the countries involved in the negotiations. Since the United States is the most powerful of the nations involved, it would be useful for us to use it as a basis for comparison. According to the following two charts, Mexico ranks lowest in all comparisons based on economy.

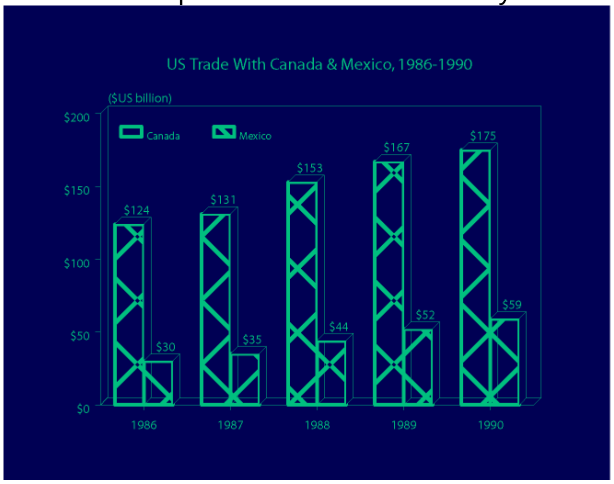


Table: 1 Source: U.S. Department of State

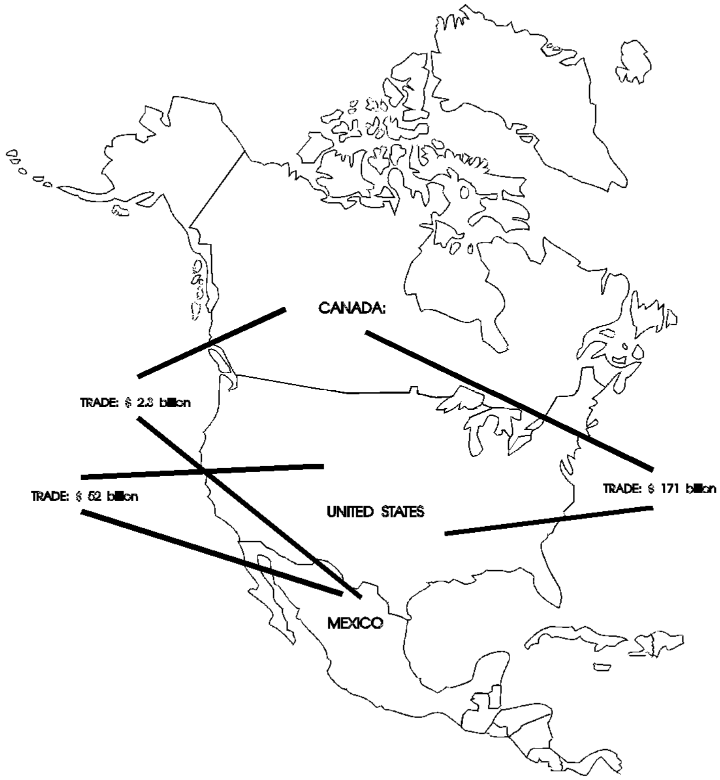


Table: 2 Source: U.S. Department of State

Of the three countries, the Republic of Mexico has been preparing for the Free Trade Agreement by changing its attitude towards foreign trade. Later in this paper we explore Mexico's preparations for an anticipated increase in foreign trade. U.S. agriculture exports to Mexico have increased significantly to $2.7 billion in 1990 since 1975. Mexico has reciprocated by increasing its export to $2.3 billion in agriculture to the United States. [14] Some U.S. experts have concluded that freerer trade between the U.S. and Mexico over the last three years has increased U.S. exports to Mexico while creating 250,000 new jobs in the U.S. [21] The following table shows the trade changes between Mexico and The United States for the last five years.

Table: 3 Source: U.S. Department of State

Combined trade between the United States and Mexico is up to more than $50 billion per year from the $29.7 billion traded in 1986. (4) Great strides have been made between the United States and Mexico in the last few years, but there still remain a few unfair practices and misunderstanding between the two neighbors. Probably the most edifying example is in an answer that president Carlos Salinas de Gortari provided a reporter when asked about U.S.-Mexico trade. Salinas de Gortari responded; “Mexico used to export brooms, manufactured by very poor people in the center of Mexico. Suddenly, the shipments of brooms were stopped at the border by U.S. Customs. Why, because they said the brooms are manufactured in the United States by the blind. My administration [Carlos Salinas de Gortari’s] did its own research and discovered that 2% of the brooms are manufactured by the blind in the U.S., 98% are manufactured by machines, ‘that are, no doubt blind.’” (52) It is misunderstandings like this which cause friction and distrust between nations. Although, this example portrays the United States as the villain, the reader should remember that examples such as this abound on both sides of any border. The following two tables show the current trade flows between Mexico and The United States.

1988 TRADE FLOWS BETWEEN THE US AND MEXICO

	% of total Exports/Imports	% of total Production
EXPORTS		
US to MX	5.87%	0.26%
MX to US	8.39%	9.07%
IMPORTS		
US to MX	5.65%	0.33%
MX to US	73.00%	7.12%

Tables 4 & 5 Source: Peat Marwick

The Republic of Mexico is the United States’ third largest trading partner, but Mexico still accounts for slightly less than 6% of all U.S. exports. On the other hand, the Mexican export is very dependant on the United States; more than 80% of Mexico’s exports are exported to the United States. (64) United States exports to Mexico totaled $25 billion in 1989, a 71% increase from $14.6 billion in 1987. Most of the growth in exports from the United States to Mexico was in 1988 when merchandise export expanded by 42% or $6.1 billion over the previous year. Exports in 1989 grew by 21%, an increase of $4.3 billion in that year. (63) In the three years mentioned Mexico has consistently exported more to The United States than it has imported. The following table shows U.S. trade with Mexico from 1987 through 1989.

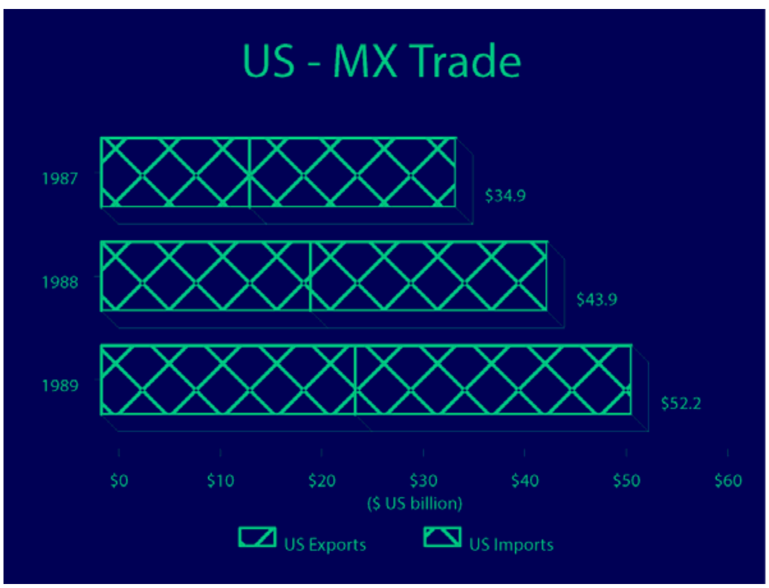


Table: 6 Source: U.S. State Department

The United States exports approximately $300 for every Mexican citizen, while exporting approximately $3000 for every Canadian, a ten to one ratio. (55) Whether this is do to the population difference between Canada and Mexico, or the wealth disparity between the two is subject to speculation. Trade between Canada and Mexico has been minimal compared to trade between the United States and them. Canada has only 16 maquiladoras currently in Mexico. (46) In the first eleven months of 1990, Canada exported $557 million to Mexico while exporting $97.2 billion to the United States. In the same period of time, Canada imported $1.6 billion from Mexico while importing $81.5 billion from the United States. (50)

Because the Free Trade Agreement has been pursued extensively by Mexico, and because this agreement will most likely benefit Mexico the most, it is important that the reader understand Mexico's current trade with its two neighbors to the north. Mexico currently buys 70% of all its imports from The United States while only purchasing 20% from Japan and 10% from the European Community. (55) Because the United States' is Mexico's closest neighbor to the north, and because the United States is undoubtedly the most powerful nation in the world, its trade with Mexico is vast compared to Canada. The United States' imports from Mexico are about 6% of the total U.S. imports, while American exports to Mexico account for about 73% of the total Mexican imports. (54) At the same time, Mexico has become an increasingly important market for the United States by increasing American exports to Mexico by 71% between 1987 and 1989, while only increasing exports to the rest of the world by 41%. (63) Mexico and United States bilateral trade was $52 billion in 1989 and it's estimated that it will increased to $59 billion in 1990. (71) The following table shows a breakdown of exports to Mexico by American states between 1987 and 1989.

	1987	1988	1989
Alabama	80,551,000	114,216,000	156,067,000
Alaska	5,298,000	2,678,000	9,942,000
Arizona	644,677,000	761,786,000	759,494,000
Arkansas	87,710,000	42,664,000	80,519,000
California	2,257,268,000	8,241,765,000	4,172,918,000
Colorado	69,290,000	79,955,000	96,898,000
Connecticut	115,873,000	160,174,000	182,958,000
Delaware	28,068,000	88,900,000	51,414,000
District of Columbia	4,982,000	7,068,000	6,627,000
Florida	218,998,000	826,886,000	424,199,000
Georgia	108,097,000	157,208,000	282,017,000
Hawaii	61,000	216,000	22,000
Idaho	11,288,000	86,881,000	22,652,000
Illinois	278,878,000	448,166,000	569,208,000
Indiana	270,929,000	155,910,000	208,961,000
Iowa	66,084,000	98,778,000	116,720,000
Kansas	124,979,000	279,445,000	221,210,000
Kentucky	48,266,000	86,127,000	99,428,000
Louisiana	877,425,000	580,149,000	671,019,000
Maine	2,685,000	10,858,000	11,287,000
Maryland	17,044,000	33,212,000	25,262,000
Massachusetts	100,117,000	116,580,000	155,449,000
Michigan	1,077,870,000	1,817,896,000	1,720,558,000
Minnesota	89,975,000	185,888,000	162,847,000
Mississippi	52,510,000	69,557,000	97,460,000
Missouri	198,718,000	812,727,000	822,048,000

Montana	1,219,000	2,255,000	19,948,000
Nebraska	44,546,000	52,275,000	50,581,000
Nevada	2,706,000	5,476,000	22,207,000
New Hampshire	9,790,000	14,280,000	18,816,000
New Jersey	189,017,000	256,749,000	890,817,000
New Mexico	9,058,000	15,968,000	14,479,000
New York	512,868,000	827,981,000	884,284,000
North Carolina	94,670,000	187,110,000	190,184,000
North Dakota	89,886,000	87,488,000	51,651,000
Ohio	245,282,000	881,881,000	464,084,000
Oklahoma	44,248,000	97,769,000	62,869,000
Oregon	19,477,000	28,458,000	88,067,000
Pennsylvania	181,126,000	887,898,000	474,687,000
Rhode Island	14,664,000	28,941,000	82,108,000
South Carolina	82,850,000	54,858,000	59,751,000
South Dakota	5,858,000	4,760,000	5,251,000
Tennessee	100,988,000	141,177,000	244,287,000
Texas	6,465,128,000	9,884,029,000	11,010,627,000
Utah	87,088,000	50,985,000	81,758,000
Vermont	2,570,000	16,851,000	11,550,000
Virginia	41,056,000	68,518,000	85,748,000
Washington	88,882,000	90,990,000	119,270,000
West Virginia	48,988,000	18,567,000	26,278,000
Wisconsin	77,822,000	88,188,000	185,217,000
Wyoming	8,874,000	8,055,000	8,824,000
Total	**15,306,302,000**	**29,067,197,000**	**26,280,527,000**

Table: 7 Source: Office of Trade & Investment Analysis

Some states, like Texas import more from Mexico as the following graph illustrates then from the rest of the world.

Importers Of Texas Goods: 1989

Mexico	31.5%
Canada	7.9%
Japan	5.6%
United Kingdom	4.2%
Taiwan	3.0%
South Korea	3.0%
The Netherlands	3.0%
Singapore	2.9%
Belgium & Luxembourg	2.6%
China	2.2%

Table: 8 Source: The Stern Group, Inc.

Canadian trade on the other hand, has remained relatively unchanged. Canada exported $603 million in iron, steel, and automobiles to Mexico while importing $1.7 billion making Mexico, Canada's 17th largest partner. [46]

As Mexico continues to assimilate under the international trade market, it has experienced significant changes internally. In 1983 Mexico earned 70% of its export revenue from oil, today 70% of its exports are comprised of cars, computers, textiles, tires, chemicals, vegetables, and coffee. [33] Shying away from protectionists' attitudes on foreign investment, it is estimated that Mexico had 6,000 companies with foreign investments in 1985. Of Mexico's 500 largest firms, 180 of these have foreign participation while 15% of the 180 have majority foreign participation. [65]

According to some economists, Mexico has severely limited its economic potential with its 80 year old policy of protectionism, nationalism, and excessive regulation and taxation. [32] Countries cannot base policy on the whims of one minority without taking into account the welfare of the nation. The government policy, initiated by the PRI, built a centralized state in which high tariff walls permitted Mexico's initial miraculous growth. [59] Mexico first established the conditions for which foreign investment could enter Mexico under the Juárez administration (1858-1872). Benito Juárez was interested in using foreign capital to help develop the Mexican economy but because of Mexico's history, his attitude toward foreign investment was influenced by a strong nationalistic sense and a desire to protect the country from any potential foreign economic dominance. In the 1900's, Mexico finally began to openly accept foreign investment. The Mexican constitution of 1917 included foreign investors in its civil guarantees but limited their ownership of land and their right to work and engage in business in Mexico. Specifically, Article 27 of the constitution states that ownership of real property belongs to the nation, which has a right to transfer such ownership to private persons. [40] Since the Avila Camacho (1940-46) administration, Mexico has encouraged foreign investment and has imposed no serious obstacles in selected sectors of the economy. At the same time it did place limits on petroleum, banking, public utilities, transportation, communication and fishing. [65] In 1945 the Ministry of Mexico established a requirement of a minimum of 51% of Mexican ownership on the radio, film, fishing, advertising, domestic air transport, and highway transport industries. Then in 1960 the timber industry was reserved exclusively for Mexican citizens. In 1961 foreign ownership in mining was limited to 49% and in the case of some strategic minerals to 34%. Foreign investment in banking, insurance, and bonding businesses was limited in legislation enacted in 1965. In 1970, tighter restrictions were imposed on all new foreign investments, in steel, cement, glass, fertilizers, paper and aluminum. [40] The next major change in investment laws came in 1973. The law defined certain key sectors of the Mexican economy that would remain under government control or solidly in Mexican hands. It also emphasized the 51% ownership requirement in selected industrial sectors. [65] The 1973 law also established the National Commission on Foreign Investment. This commission screens all applications for potential investments in Mexico against 16 criteria contained in Article 13 of the law. The most important of these are:

- The investment must not displace national companies which are operating satisfactorily or be directed into areas covered by national companies.
- The investment must have a positive effect in expanding exports.
- The investment must also increase local employment opportunities.
- The investment must take advantage of raw materials available in the area.
- The investment must offer new technologies to the country.

The 1973 law also specified that all foreign investments must register with the committee. It also accorded Mexico the exclusive right to develop petroleum and other hydrocarbons, basic petrochemical products, radio-active minerals, nuclear energy, electricity, railroads, telegraphic and radio communications, and certain minerals. When Miguel de La Madrid assumed office in December of 1982 he publicly expressed an open attitude towards foreign investment. [40] The reader should remember that Mexico was at the time in its worst economic crisis in recent history. One of the most profound changes in Mexican foreign investment practices was seen in 1985. In July 1985, the Government of Mexico approved an IBM Corporation proposal to assemble personal computers in a wholly owned plant near Guadalajara. Then president, Miguel de la Madrid praised the plan as an "expression of faith" in Mexico's economic progress. The reader should note that Mexico was just beginning to come out of its worst economic crisis and at the same time, IBM Corporation convinced Mexico to allow it to maintain 100% ownership of its plant! [(41)] IBM has recently stated that the plant near Guadalajara is “one of the best” in the world. [(33)] Hewlett-Packard soon followed suit, and received 100% ownership of its two plants in Guadalajara. Hewlett-Packard produces personal computers and mini computers there. With the addition of Wang, the Guadalajara area has become Mexico’s Silicon Valley. [(13)] In 1989, the Mexican government announced the Plan Nacional de Desarollo (PND: National Development Plan) 1989-1990 which focused on investment promotion, economic stabilization and modernization. According to the plan, in order to increase funds for investment, Mexico should increase domestic savings, develop better trade relations, and find a way to return Mexican capital from abroad. The plan also divided the Mexican economy into four sectors. Group I, as it is known, was reserved for the Mexican public or private investors. This group consists of forestry, oil and gas extraction, uranium mining and processing, oil refining, basic petrochemicals, electricity, transportation (except maritime and tourism), telegraph, and financial institutions (except investment companies). Group II permits minority foreign ownership in the following industries: fishing, other mining activities, firearms, transportation equipment, telecommunications (except telegraph), finance companies and the automobile industry. Group III which consists of the following industries: tobacco, textiles, apparel, leather, lumber, paper, chemicals, machinery, restaurants, hotels, and manufacturing allows for 100% ownership. The final group, Group IV, allows 100% ownership with prior government authorization in the following commerce: agriculture, livestock, printing, publishing, construction, and private educational services. In the fall of 1990, Mexican president Carlos Salinas de Gortari signed a far-reaching trade agreement with Washington that set the stage for further tariff reduction in such areas as automobiles, auto parts, telecommunications, computers and processed food. [(42)] Today, Mexico is considered by some to be one of the most open countries in Latin America in terms of trade. [(31)] In 1940, only 7% of all foreign investment was unrestricted, in 1970, 24% was unrestricted. [(65)] In 1982, all products imported into Mexico were subject to a quota and up to 100% tariff, while today, less then 4% are under quotas and the average tariff is less than 10%. [(33)] Today, Mexico employs the following trade barriers: tariffs, licensing restrictions, and barriers on investment. Currently Mexico allows imports of certain agriculture commodities, only after the entire domestic supply has been consumed. [(64)] Also, Mexico currently asses an average surtax of 9% on all U.S. goods entering Mexico, [(3)] making Mexico’s combined tariff rate 3.7% higher than that imposed by the United States. [(54)] The following three tables illustrate Mexico’s trade protection.

AVERAGE TARRIFF	
United States of America	
Including Maquilas	3.5%
Excluding Maquilas	5.8%
Estados Unidos Mexicanos	
Including Maquilas	8.2%
Excluding Maquilas	10.7%
TARRIFF EQUIVALENT of IMPORT QUOTAS	
United States of America	
Including Maquilas	1.3%
Excluding Maquilas	2.2%
Estados Unidos Mexicanos	
Including Maquilas	0.3%
Excluding Maquilas	0.4%
COMBINED TARRIFF RATE	
United States of America	
Including Maquilas	4.8%
Excluding Maquilas	8.0%
Estados Unidos Mexicanos	
Including Maquilas	8.5%
Excluding Maquilas	11.1%

Tables: 9, 10, & 11 Source Peat Marwick

Unlike Mexico, The United States relies more heavily on import quotas for trade protection. The United States uses two basic forms of trade barriers; the first being, ad-valorem tariffs imposed by the country on imports and the second being quantitative restrictions on imports on certain commodities; These primarily being: sugar, apparel, textiles, and certain agricultural products. (54) Probably, the most familiar interpretation of United States trade restrictions is that trade is best for the nation as a whole, but when certain national industries are weak in the market; they organize politically to press for protection and the government provides said protection. (82) As an example, Mexico grows more avocados than any country in the world, but is unable to import any into the United States, countries must be careful, because in America sometimes the tomatoes are too red, the dolphins get caught along with the tuna or some nonexistent pestilence could threaten American agricultural products.

CHAPTER 4 - THE INTERNATIONAL PLAYERS

In order for the reader to formulate his own opinion of the effects the agreement could have on the countries he should first grasp an understanding of each country's prevailing status. The following table gives the reader a superficial profile of Canada.

Geography:	**Area**: 9.97 million sq. km. (3.8 million sq. mi.) Second largest country in the world **Capital**: Ottawa (pop. 833,000) **Terrain**: Varied **Climate**: Temperate to arctic
People:	**Nationality**: Canadian **Population**: (1989) 26.3 million Annual growth rate: (1988-89) 1% **Religions**: Roman Catholic 47% United Church 16% Anglican 10%
Languages:	English, French
Literacy:	98%
Government:	Confederation with parliamentary democracy
Independence:	July 1, 1867
Flag:	A red maple leaf on a white background flanked by vertical red bands
Economy:	GNP: (1989): US$500.3 billion Avg. inflation rate: (1990) 5.0%

Table: 12 Source: U.S. Department of State

The ensuing table will allow the reader to see key labor indicators for Canada and their changes from 1988 to 1989.

	1989	1988	% of change
Per capita GDP (current prices; US$)	19,600	18,070	8.5
In-migration	190,000	161,900	17.4
Out-migration	41,000	41,000	0
Life expectancy Males	73	73	0
Life expectancy Females	80	80	0
Adult literacy rate	99	99	0
Labor force, civilian	13,500,000	13,300,000	1.7
Employment, civilian	12,500,000	12,200,000	2.0
Unemployment rate	7.5	7.8	-3.8

Table: 13 Source U.S. Department of Labor

As stated before, Canada is least likely to benefit from FTA, but it cannot afford to be left behind.

Mexico, on the other hand stands to benefit the most. The following table should give the reader a superficial profile of Mexico.

Geography:	**Area**: 2 million sq. km. (764,000 sq. mi.) Appx. Three times the size of Texas **Capital**: Mexico City (pop. Est. 1987 at 20 million) **Terrain**: Varies from coastal low lands to high mountains **Climate**: Varies from tropical to desert
People:	**Nationality**: Mexican **Population**: (July 1989): 86 million Annual growth rate: (1988 est.) 2.2% **Religions**: Roman Catholic 97% Protestant 3%
Language:	Spanish
Literacy:	88%
Government:	Federal Republic
Independence:	September 16, 1810 (Republic established in 1822)
Flag:	Green, white and red vertical bands. An eagle perching on a cactus a serpent is centered in the white stripe.
Economy:	GNP: (1989): US$170.1 billion Avg. inflation rate: (1990 appx) 30%

Table: 14 Source: U.S. Department of State

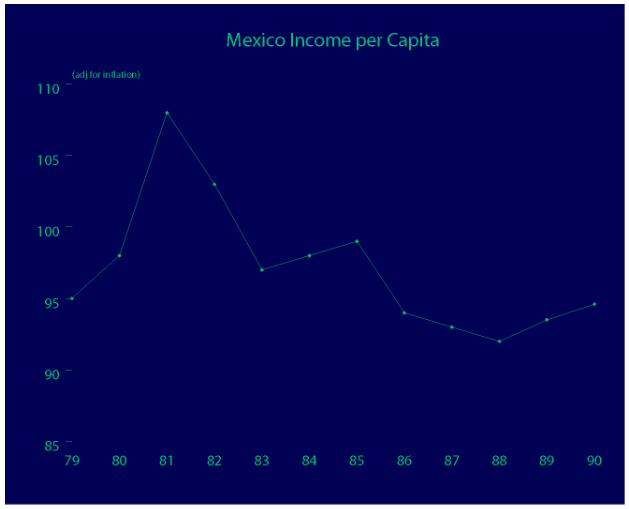
The subsequent table highlights key labors indicators and their changes from 1988 to 1989.

	1989	1988	% of change
Per capita GDP (current prices; US$)	2,383	2,124	12.2
Life expectancy Males	66	66	0
Life expectancy Females	73	73	0
Adult literacy rate	83	83	0
Labor force, civilian	n/a	20,200,000	
Employment, civilian	n/a	7,500,000	
Unemployment rate	3.5	4.0	-12.5

Table: 15 Source: U.S. Department of Labor

Mexico has more to offer than beaches, sunshine and margaritas. It has vast natural resources, an ambitious people, a country ripe for investments and an inexpensive labor force willing to work to increase their standard of living. [(13)] Businessman, Lembit Maimets of Canada once said, “Mexico has many skilled people and they are very energetic. I have a feeling that they will be the next Japan of North America.” [(50)]

The 1982 economic crisis was the single most important reason for Mexico’s extraordinary loss of national economic independence, pride and living standards. [(8)] This and the unexpected nationalization of banks severely damaged investor confidence in Mexico. [(65)] Mexico’s economy is starting to revive [(72)] as President Carlos Salinas de Gortari begins to attract foreign investments. [(38)] Mexico’s Gross Domestic Product is up by 2.9% in 1989 versus a 1.4% increase in 1988 and inflation is down to less then 20% in 1989 from a high of 200% in 1987. [(38)] Industrial production in Mexico increased 51% in 1989 compared to only 1.8% in 1988 and gross fixed investments were up by 4.8% in 1989 because of the Mexican government’s decrease in inflation and its liberalized economy. [(39)] The following graph demonstrates Mexican per capita income from 1979 to an estimated 1990.



Mexico's largest desire under the proposed trade agreement would be to attract foreign investment. Foreign investment in the amount of $2.67 billion entered the country in 1990. [74] Private investment increased 10.1% in 1988 and again in 1989, this time by 8.3%. As foreign investment confidence increases, Mexico hopes to repatriate the capital that Mexican nationals have overseas. The Mexican government estimates that between $2.5 billion and $5 billion has been reintroduced into the country through the first quarter of 1990. [33] Some officials estimated that between $80 billion to $109 billion left the country subsequent to the 1982 crisis. [83]

Born on April 3, 1948, President Salinas de Gortari should be credited with single handedly bringing Canada and The United States to the bargaining table on The Free Trade Agreement. Nicknamed the "Hormiga Atomica", the atomic ant, President Salinas holds a Doctorate in Government from Harvard University with two Masters, one in Public Economy and the other in Public Administration also from Harvard University. Inaugurated on December 1, 1988, [10] the president has staked his domestic political prestige on FTA. [21] Salinas was the architect of the devaluation of the Mexican peso in 1982, which devalued the peso from 70 pesos to the current 3,000 pesos per US dollar. [10] In the first two years of his administration, he has developed a reputation as a strong leader. [37] The 43 year old president has opened his country to a tidal wave of imports, reduced and eliminated subsidies on food and other consumer goods and privatized hundreds of money losing state enterprises all to prepare Mexico for the new economic world order. At home, the president has been labeled "Salinastroika" a play on Soviet President Mikhail Gorbachev's perestoika, or restructuring. Barber Conable, World Bank president has lauded Salinas for implementing "one of the most ambitious, courageous and determined programs of economic reform and institutional change recently undertaken in any country." [42] It is interesting to note, that the president initially rejected FTA by saying that Mexico was not ready, [10] but as Mexico and the world have changed, Salinas has taken charge and has begun to steer Mexico and North America in preparing for the future. The final participant in the free trade negotiations is The United States.

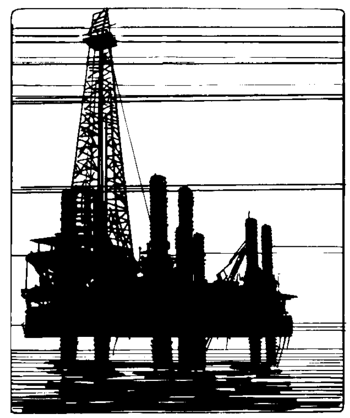
The following profile will give the reader an overview of The United States of America.

Geography:	**Area**: 3,618,770 sq. mi. **Capital**: Washington D.C. **Terrain**: Varies from coastal low lands to high mountains **Climate**: Varies
People:	**Nationality**: U.S. Citizen **Population**: (1990 est.) 250.4 million
Language:	English
Literacy:	(1987) 99%
Government:	Federal Republic
Independence:	July 4, 1776
Flag:	A blue square in the upper left hand quarter containing 13 white stars with 13 red and white horizontal stripes
Economy:	GNP: (1988): US$4.8 trillion
	Table: 17 Source: The World Almanac and Book of Facts 1991

As the American people begin to put the Iraq conflict behind them, they begin to concentrate on more domestic issues awaiting the nation, one of them being FTA. United States exports rose $10 billion between 1987 and the middle of 1990. [(72)] As Americans delight in the Iraq victory they tend to forget how the rest of the world observes them. Most countries, if not all, would be the first to say that they admire the United States and its people, but most countries have felt American aggression one way or another. Aggression has been a way of life for Americans throughout history, either through intervention or playing “world policemen.” On July 4, 1776, The United States declared its independence from Great Britain. It was not until March 1782, that the British recognized U.S. independence. The United States first established its present government with the election of George Washington in 1789. In 1803, America doubled its size by purchasing Louisiana from France. In 1819, Spain ceded Florida to the U.S. on February 22. On May 13, 1846 The United States declared war on Mexico. The Republic of Mexico reciprocated the declaration of war ten days later, declaring war on May 23, 1846. In 1848 as part of the peace treaty, Mexico ceded Texas, California, Arizona, New Mexico, Nevada, Utah, and part of Colorado to The United States. In 1913, the U.S. again intervened in Mexico, this time by blockading the port of Veracruz in the presumed support of revolutionaries. The revolutionaries, as well as the government demanded the immediate withdrawal. The United States again occupied the city of Veracruz in 1914. In 1916, General John J. Pershing invaded Mexico in pursuit of Pancho Villa. In 1917, the United States declared war on Germany and in 1941 again declared war on Germany, this time including Japan and Italy. Five short years after World War II, the United States was involved in yet another conflict, this time with Korea. In 1961 The United States again intervenes militarily in the Americas, this time by attempting to invade Cuba with Cuban exiles trained and directed by the U.S. Three years later, in 1964, the Congress of The United States authorizes the president to begin military action in Vietnam. It wasn’t until 1973 that the Vietnam War ended. Then in 1983, The United States again intervenes in the Americas, this time invading the Island of Grenada. In 1984, the United States admits to mining Nicaraguan harbors by its intelligence service, the CIA. In 1986 the United States bombs Tripoli and Benghazi. In 1989, The United States again intervenes in the Americas, this time invading Panama. Again, the United States flexes its muscles by going to war against Iraq in 1991. [(80)] Although, the United States has tried to justify its actions, and in some instances, its actions might be justifiable, the fact remains that The United States has persistently intervened in the affairs of other sovereign nations. Whether justifiable or not, human life has been lost, both American and other nationalities, and countries have come to know American aggression one way or another.

Among the opposition in The United States to FTA are labor and environmental groups which hope to derail the treaty. [(21)] FTA opponents include environmentalists, labor unions and representatives of such industries as textiles and agriculture, who fear the lifting of trade barriers will lead to a polluted border and a loss of U.S. jobs. [(28)] With the exception of environmental issues, the opposition is trying to protect the current status quo on certain industries. The final major player in the treaty negotiations is GATT.

GATT or General Agreement on Tariffs and Trade was established in 1947. GATT is an international forum which intends to open markets and create fairer trade among countries. In 1986, the eighth round of negotiations was launched in Uruguay and is the most ambitious to date. More than 100 countries are participating in the current round which aims to strengthen and expand the global trading system. Although GATT has no direct association with FTA, any discussions in North America will be influenced indirectly by GATT. Also, the GATT is part of President Bush's request for Fast Track negotiation authority so that he can conclude negotiations with GATT. If current GATT negotiations fail, countries might be forced to raise trade and investment barriers as world trade pressures increase. [(71)]



When asked about the Free Trade Agreement, one Mexican business man said; "Mexico is already open. The FTA is not to open Mexico; it is to open the United States." [(31)] Over the past three years, Mexico has unilaterally liberalized trade with the United States. As a result, U.S. exports to Mexico have risen sharply over the last 2 years. [(8)] Meanwhile, in the last five years, Mexico has gone from one of the world's most closed economies to one of its most open. [(57)] In the early 1980's, Mexico was a fortress as far as imports were concerned. Tariffs were levied on all goods, with some being as high as 100%, with the average being around 27%. Since 1983 the walls have begun to come down. Mexico's maximum tariff is now 20%, with the average tariff being 9%, which compares with The United States' 4.5% current tariff. [(32)] Salinas de Gortari has unilaterally fulfilled Mexico's part of the bargain by lowering Mexican protectionism. So far The United States has not reciprocated, leaving Mexico with a deteriorating trade balance that has nullified, along with weighty debt payments, the impact of any increment in foreign investment. [(51)] As an example of Mexico's commitment to a trade agreement, the Mexican government has begun to take control of its bureaucracy. Foreign investment proposals used to take an average of 18 months for the government to issue an answer to the proposal. Today, if the answer is not received in 45 days, then the approval is automatic. Further, investment projects under $100 million that meet certain criteria require no government approval. [(33)] As further confirmation, Mexico has begun to sell government enterprises to the public sector. In December 1982, the Mexican government owned 1,155 economic enterprises, by February 1990, 619 of these had been sold and 182 more were in the process of being privatized. [(57)] Mexico has brought inflation down to approximately 19.7% [(13)] while reducing its external debt from $107 billion in 1987 to $84 billion. It has also attracted $4 billion in new investment along with a return of $5 billion of Mexican repatriated capital in the last 15 months. [(9)] Even the social sector has begun to notice the difference with innovative programs such as "Soliradidad" or Solidarity. According to Salinas de Gortari, Solidarity is a program in which proceeds from the sale of state-owned companies is made available for basic services and productive investments. Salinas de Gortari states that Solidarity is not a populist program, the government does not print money and give it away, nor is it paternalistic, the people must take the initiative and organize themselves. If the people do not take the initiative and they do not organize, then the government does not provide any resources. When the program is initiated by the people, the government provides money, material and technological assistance, while the people do the work. Once the service or investment is in place, the people who built it must pay for its use just like everyone else. [(52)] Examples of this program abound in Mexico, all one needs to do is watch Mexican television and eventually they will see a television commercial detailing the program. In 15 months, the program has provided electricity to 5 million households that did not have it before. In 12 months it introduced water to another 3 million citizens. [(52)] Although vast strides have been made, President Salinas de Gortari must balance his programs with Mexican long history of nationalism as he only has a small majority in Congress and his programs have tended to alienate the poor, all of which might hurt him in future elections for his party before his term is up. [38] Any delay in securing the trade agreement could harm Mexico's efforts to revive its weakened economy and hurt the advances Salinas de Gortari's government has so courageously launched. [48] Mexico is ready for The Free Trade Agreement, and like a Mexican official said; "Mexican industry is developing the quality and the quantity to be competitive", he said in a recent interview admitting that those companies that do not invest in the future will be left behind. [28] Maybe, the three countries should ponder this, and invest in their future.

CHAPTER 5 - THE ISSUES

How can two countries, who have been neighbors for so long behave like total strangers? The answer lies in the history of both countries. "Pobre de Mexico, Tan lejos de Dios y tan cercas a Los Estados Unidos" is probably the best example of Mexican feelings towards the United States. Porfirio Diaz, past president of Mexico is credited with coining the phrase; "Poor Mexico, so far from God and yet so close to The United States." Why are Mexico and The United States so different? According to Octavio Paz, Mexico's greatest poet (1990 Nobel Prize for Literature), unlike Americans, Mexicans consider themselves non-European. When the Spanish invaded, Mexico, a civilization, which is preserved to this day, was already firmly in place. The Spanish tried to integrate Mexican natives by turning them into Catholics, while Mexicans rebelled against this integration. The reader should remember that Spain has always considered itself the defender of the Faith, especially after the Crusades where it defended the Faith against Islam. Mexico's rebellion is best demonstrated today in Mexico by its unique version of Catholicism.

The reader only has to enter any Mexican church and find coupled within Christianity, icons of its past. According to Octavio Paz, Mexican history and tradition is the center of existence. A history that although full of tradition and beauty, has nevertheless, severely handicapped the Mexican mind. Paz describes it best in his writings when he says; "Since independence, Mexico has tried to be modern without challenging the habits of the past. We have changed our ideas, but not our nature." Mexico's nature is based on integration, unlike The United States who throughout history has demonstrated its nature of separation. [56] In the past 150 years, Mexico has come to know and fear American power and intervention. The reader should refer back to the previous chapter to review previous American interventions in Mexico. Even during internal strife, America has tried to intervene in Mexico, and Mexico as a whole has resisted. In 1914, President Wilson sent troops to occupy the city of Veracruz with the excuse of aiding Carranza in the overthrow of the Huerta Dictatorship. Carranza immediately demanded the withdrawal of United States forces, although he could have used their help in his struggles. To this date Mexico has trouble coming to terms with losing half of it territory to the United States. At the same time, few Mexicans, if any, express hostility towards Americans as individuals and many openly admire America [11], but they cannot bring themselves to trust the U.S. As Salinas recently said, "Bush needs to demonstrate U.S. respect for Mexico's sovereignty. The involvement by the U.S. Drug Enforcement Administration in the kidnapping of a Mexican doctor, who was allegedly involved in the murder of a DEA agent, was illegal and wrong." While the U.S. broke the rules, the Mexicans followed them, requesting the arrest of the two DEA agents who admitted in court their role in the kidnapping. The administration seems inclined to dismiss the case, but if the U.S. does that, the U.S. cannot expect Mexico to respond to future U.S. requests for cooperation or extradition. The United States has the mistaken belief and attitude that if the rules do not meet its agenda, then those rules are meant to be broken. A society that does not respect rules becomes a society ruled by anarchy. Likewise, The United States could ruin the agreement if its conditions include changes in Mexico's political system. [59]

Although the agreement could be jeopardized Mexico is the first to admit that there is no turning back. As Jaime Serra Puche said, "The decision to join the world's growing competitive market already has been made and we're preparing for it." [26] Mexico, with the world's fourth largest oil reserves [34] has come a long way in preparing for trade with the U.S. It has eliminated most of its import tariffs, increased investments, and reduced its deficit. [26] Although FTA has generated widespread popularity in Mexico, there remain a few detractors. Manuel Espino, Juarez secretary general for the PAN (National Action Party) has said that Mexico is not ready for FTA in the political arena or the economic aspect. Espino fears that Mexico would become a Maquila region for North America. [16] The author cannot help but wonder if his statement is based on the welfare of Mexico or that it is based on political considerations. The fact remains that Mexico needs to continue to improve itself for the increased trade, especially in rebuilding its infrastructure. [27] But few people can argue with Jaime Serra Puche when he says; "A Free Trade Agreement will bring much needed foreign investment to Mexico, a variety of technologies and skills, plus a larger market for its products." [26] Mexico is ready and waiting. The United States needs to decide if it wants to join or be left behind.

One needs only to look at American history to understand, why American culture and attitudes are so different. The United States is probably the only country in this small world that started out with the attitude that they were going to make a difference. The reader should, remember that America was initially colonized by people who could not accept the principles of the day and set out to establish new ones. The United States started as a new beginning; it set out to forge the past. The Mexican poet, Octavio Paz best describes the U.S. from an outsider's point of view in his writings. He says, "The U.S. future is an open space ahead, imagination is free to express itself." His perspective is that the United States was born rushing into the future, the U.S. started out as a beginning. It set out to forget the past. He goes on to say that the U.S. is a country without roots. Roots for the United are not in the past but in the future. Americas attitude has been not to incorporate its natives, but to keep them outside and not part of the American dream. Americas past is not part of its future. He goes on to point out that the American dollar has the following inscription: 'Novus Ordo Sectorum" or "the new order of the ages." [58] The future is there for the taking maybe that is why America is the world's most powerful country. As Canada has experienced, once you begin to negotiate trade with the U.S., other economic, social and political questions are immediately raised. [23]

Almost all experts agree that the proposed trade agreement presents several strategic implications for Canada. [7] Some Canadian labor leaders have expressed concerns about the potential agreement by saying that Canadian wages could plummet if Canadian companies have to compete directly with Mexican workers. These leaders say that Mexican workers are making the most sacrifices in Mexico's restructuring. [48] Other Canadian critics predict that the U.S. trade representatives will use the talks to open parts of the Canada-U.S. FTA that protected Canadian industries. [50] On the other hand, there are Canadians that feel that Mexico should include Canada in the negotiations because the countries have good relations. Canadian Trade Minister, John Crosbie says that Ottawa is determined to be a full and equal partner in any future trade agreements involving Washington and Mexico City. [48] He states; "If Mexico is a fantastic menace to Canada, that is true now, and they do not need a free trade agreement. We would be on out knees already." Christina Massie, an Ottawa based agricultural and trade consultant who has conducted business in Mexico for 24 years declared; "We cannot afford to stay out because then we would be totally isolated." [50] Canadian supporters say that if the U.S. signs a separate FTA with Mexico, it will put Canada at a severe disadvantage. Trade experts refer to such an arrangement as a "hub-and-spoke" system. Under it, firms would rush to the United States, the hub, because only companies located there would have tariff free access to all three markets. Meanwhile, Canadian exporters trying to ship their products to Mexico would face higher duties then their American competitors. Canadian consumers would end up paying more for Mexican imports. [50] If Mexico negotiates a FTA with the United States and not Canada, then Canada would lose most of the benefits and inherit the disadvantages. [75]

As in any negotiations, there are two sides to any argument and FTA has its share of them. All three countries have similar fears and concerns but from different points of view. The only distinct fear expressed by any of the countries is the issue of sovereignty.

Because of the tumultuous history between Mexico and The United States, Mexico fears that this agreement could erode Mexico's sovereignty. [3] The United States certainly has not done anything to reverse this feeling, and if anything, it has reaffirmed it by recent actions from its Drug

Enforcement Agency as demonstrated previously. But as Mexico, begins to rebuild its economy its peoples' pride will increase and its fears will diminish. Maybe as time goes on, Mexico will come to see the U.S. as a friend and not someone to fear. The United States might even extend a firm handshake across the Rio Grande as it is known in America or the Rio Bravo as it is known in Mexico.

Fears abound in the U.S. about what FTA will cost Americans. According to some, the U.S. will lose jobs in certain industries, while suffering painful restructuring of certain industries such as agriculture, and it will suffer an uneven impact across its states. Some states would benefit more than others, such as Texas benefiting more than Illinois. (6) Many U.S. law makers fear that a trade agreement with Mexico will reduce health standards, lead to environmental damage, depress employment and open the U.S. border to more smuggled drugs. (62) In order to adequately address these fears it would be better to break them down into individual components.

One of the most talked about industries that would suffer under FTA is agriculture. Some in the agriculture industry fear that under FTA, production of agricultural products could move to Mexico where labor is less expensive. (14) U.S. fruit and vegetable producers fear that larger imports of produce would come from Mexico as a result of the proposed agreement. The U.S. International Trade Commission Report (released: 2/22/91) stated that FTA would pose: "a moderate negative effect on the horticulture products industry." (17) Other U.S. agricultural experts say that FTA could open new markets for them in Mexico. Mexican agricultural experts say that, U.S. farmers should not fear being overwhelmed by Mexican commodities after trade barriers are lifted, Mexico is currently the fourth largest customer for U.S. agricultural products and would buy even more if FTA was allowed to strengthen the Mexican economy. (14)

Ever since the introduction of the North American Free Trade Agreement, probably the most vocal group against it has been environmentalists. Environmentalists fear a devastating air and water pollution along the Rio Grande if Mexico continues it lax enforcement of environmental regulations. (17) These environmentalists worry that FTA would allow U.S. companies to escape U.S. environmental laws by moving operations to Mexico. (24) Mexican environmental groups also fear the consequences of FTA as stated by Homero Aridijis, president of Mexico's Grupo De Los Cien, in a letter to president Carlos Salinas de Gortari requesting that negotiations include ecology issues. (20) "They can't pour things into the Rio Grande and it not effect us"; Cathy Bonner, head of Texas Department of Commerce stated recently. (24) Experts agree that, U.S. plants in Mexico are polluting the ground water with chemicals and pesticides banned in the U.S. (28) Developing countries face severe challenges in dealing with the ecology. It is difficult for the government to focus on long range needs when faced with pressing, immediate concerns such as food and earning mush needed foreign exchange to buy essential products. As Michael Kinsley, of The Washington Post recently stated, "It makes perfect sense for a poorer country to have lower environmental standards than a richer one. Clean air and water are luxury goods; you can afford more of them as you advance. The U.S. didn't have today's environmental standards when we were as poor as Mexico is, and if we had we wouldn't be as rich as we are." (77) Maybe, the United States should look into what it can do as a nation, instead of compounding the issue. Mexico does not forget that the environment is a shared resource and is showing signs of preparing for the future. There has been talk of concluding an environmental treaty with the U.S. later this year. (61) In the Mexican centralized system of government the Salinas' administration will have the final word on how far Mexico will go in protecting the environment. (24) When asked about pollution, Salinas responded; "Introducing strict penalties for polluting companies: SEDUE, Mexico's equivalent of the U.S. Environmental Protection Agency has regulations that say that any firm in Mexico within 100 kilometers (60 miles) of the U.S. border must abide by federal US-EPA standards as well as the environmental regulations of the state near which they are located, California, Arizona, New Mexico, or Texas." (52) Mexico's 1988 General Law for Ecological Equilibrium and Environmental Protection is sweeping legislation that establishes a firm commitment to protect the ecology. Much of the law is based on United States law and experience. (71)

Another fear raised by Americans is immigration. Immigration by Mexicans tends to be over dramatized in the United States. Part of the problem lays in the way The United States documents illegal immigration. The Border Patrol has only two major distinctions between apprehensions of illegal immigrants. The first is “Mexican” and the other is “OTA”, Other Than Mexican. Most of the time, when the border patrol apprehends an immigrant it deports that immigrant back to the country of origin. If the immigrant is determined to be from Mexico, he is deported to the nearest Mexican border. If the immigrant is determined to be OTA, then the immigrant is deported back to his country of origin. It is obviously more beneficial to the immigrant to declare himself Mexican and get deported to the closest border, then to get deported back to his country of origin and have to start all over again, working his way through Mexico back to the U.S. border. Most immigrants declare themselves to be Mexican when in fact they are not. The percentage of Mexicans that do not cross the border illegally would diminish as FTA begins to strengthen the Mexican economy and these immigrants begin to find jobs. (78) The following table shows immigration from the Americas into the U.S. Changes in Mexico and The United States has begun to reduce illegal immigration.

Immigration to the United States from American countries 1984 - 1988

	1984	1986	1988
Argentina	2,300	2,300	2,600
Brazil	2,200	2,700	3,000
Canada	15,700	16,100	15,800
Columbia	10,900	11,200	10,200
Cuba	5,700	30,800	16,600
Dominican Republic	23,200	26,200	27,200
Ecuador	4,200	4,500	4,700
El Salvador	8,800	10,900	12,000
Guatemala	4,000	5,300	5,800
Haiti	9,600	12,400	34,800
Honduras	3,400	4,600	4,300
Mexico	57,800	66,800	95,200
Panama	3,200	3,100	3,000
Peru	4,300	4,800	5,800
West Indies	29,900	29,200	32,300

Table: 18 Source: The World Almanac of Facts 1991

In 1986, the U.S. Border Patrol apprehended 1.7 million persons, by 1989 that number had dropped to 900,000. (71) As Mexico begins to strengthen its economy, immigration from Mexico will continue to decline.

Although Mexico contains a good infrastructure (68), Mexico must rebuild its infrastructure in order to take full advantage of FTA, (27) several experts have cautioned. Infrastructure is the transportation, utilities such as electricity, roads and bridges that a country provides for to its people. Mexico is currently employing privatization in a unique way to improve its infrastructure. The first example is the teaming up of Grupo Gutsa and Banca Serfin in building a new toll bridge across the Rio Grande (Rio Bravo) connecting Cd. Juárez and El Paso. They will own and operate the bridge for 5.4 years and then turn it over to the Mexican government. They expect to earn a 20% profit for their investment. The other example is the teaming of various construction firms with Banco Internacional, Banco Serfin and other banks to own a 70% share in a new four lane toll road connecting Mexico City with Acapulco. (33) The Mexican government realizes that in order to take full advantage of FTA it must improve its infrastructure. (27)

Americans have debated the Mexican political system for many years and have gone so far as insisting on changes. Much of their argument is based on the fact that the current political faction, the PRI, has been in power since 1929. (10) Who is to say that Mexico would be improved, if it was governed by a different bureaucratic system? The United States should recognize that the determination should be made by the population who lives there and not necessarily according to American expectations. When president Carlos Salinas de Gortari was asked about Mexico's freedom, he responded; "Read the newspapers. Please, in Mexico you have the freedom of movement, freedom of commerce and industry; remember 90% of Mexico's GDP is produced by the private sector." The reporter went on to ask; "Can you envision, one day, a president of Mexico who will not be a member of the PRI?" Salinas responded; "Ask the voters. Competition is getting tougher, no doubt." (52) And it sure is getting tougher as recent elections have indicated. As Mexico matures, so will its politics. One fact remains, that cannot be disputed, Mexico has been stable since 1920, not too many Latin American countries can boast as much. (42) Even the major political opposition recognizes that FTA is in Mexico's national interest. (54) There is one opposition that wishes to take advantage of the international spotlight on Mexico by linking the FTA with political reform. Cuauhtémoc Cardenas' PRD (Party of the Democratic Revolution) is using FTA as a means to bring attention to him. (53) We will see if the international community falls for this ploy. Attitudes have changed in Mexico as Mexico has begun to accept its future. It used to be that the idea of a free trade with the U.S. was unspeakable, conjuring up images of imperialism and the loss of Mexican sovereignty. As Salinas has said, "We can be close to our neighbors without endangering our sovereignty. One of the best ways to strengthen our government is to improve our standard of living through an influx of investments." (52) It is interesting to note that much of the debate over FTA among Mexicans is taking place in the pages of U.S. newspapers and on U.S. airwaves. (51) Some critics will argue that this is because of Mexico's lack of freedom, but the author feels that as Mexico continues to modernize, cultural changes such as these will begin to materialize. Mexico has made great strides and as it continues down the road of modernization it will continue to stake its rightful place in the world community.

Many American unions fear that U.S. companies will move jobs to Mexico where wages are often less than $1.00 an hour. (21) Texas vegetable and fruit growers have expressed fears that they could face significant competition from Mexican produce, which is harvested with far less expensive labor, if trade barriers were lofted under FTA. (15) Organized labor complains that Mexican cheap labor and lax pollution controls would cost tens of thousands of U.S. jobs. (17) Evelyn Du Brow, an International Ladies Garment Workers Union official goes as far as saying; "disaster for workers in both countries. It would destroy jobs in the U.S., while perpetuating exploitation in Mexico. The beneficiaries would be multinational corporations and large banks." (78) An International Trade Commission report admits that "unskilled workers" would suffer a "slight decline" in real income but it reports that skilled workers and owners of capital services" would benefit. (78) Most of the U.S. jobs that have already been lost in the last decade have gone to Asia. If those jobs had gone to Mexico instead, Mexicans would be spending even more on U.S. consumer goods. (8) One expert explains the wage disparity this way; "While the 70 cents an hour minimum wage appears extraordinarily low to most American, it is based on a Mexican economy in which dollars travel further. In addition, companies should be aware that over and above the 70 cents per hour, many firms also voluntarily provide employee benefits which include breakfast or lunch and transportation to and from work and groceries. This comes to about $1.30 an hour. The truth of the matter is that Mexican workers have benefits like government mandated day care and Christmas bonuses the American worker would love to have." (36)

In Canada's experience with FTA, there were 12,164,000 jobs in January of 1989. In November 1990, 12,497,000 jobs were available. (49) There was actually an increase of jobs instead of a loss. According to Michael Kinsley, "if labor is available for $2.32, paying $14.31 instead does not create an extra $11.99 of wealth. It creates nothing. That extra $11.99 is drained from the rest of the economy. The economy could buy the products in question from Mexico, pay the Americans thereby thrown out of work $10.00 an hour to do absolutely nothing and still be $1.99 better." (77) Is that really the answer, or does the answer lie somewhere else? Wesley Smith, policy analyst at The Heritage Foundation said recently; "potential losses will be offset substantially as increases in U.S. exports to Mexico add new jobs for Americans in such industries as capital equipment, high technology, and capital intensive agriculture and food processing." (78) When Mexico's president, Salinas de Gortari, was asked about the loss of U.S. jobs he responded;

"first, those jobs that would be lost in the U.S., if not to Mexico then to the Asian Tigers. Second, our perspective is not to have low wages forever. On the contrary, we want not more jobs, but better paying jobs, wages in Mexico have to go up. Competition will do this." [52] Some Maquila experts have said that for every job created in the Maquila industry, in Mexico, two jobs were also supported in the U.S. [1] The European experience has been that as a country becomes more competitive and as its output per person increases, so does its wages. [55] Ronald Wonnacott, economist at The University of Western Ontario in London says that a free trade agreement with Mexico would help expand Mexican economy leading to higher productivity, higher wages and more disposable income. [48] According to the American government, for each additional $1 billion in real net exports, about 25,000 new U.S. jobs are created. About two-thirds of the U.S. economy in 1988 can be attributed to trade. [71]

The final concern by Americans on the potential trade treaty is narcotics. One very important distinction has to be made. Whose problem is it? Any economic enterprise, including narcotics follows a fundamental law of economics, the law of supply and demand. If Americans were to lower the demand for drugs, then it would go far in solving the problem. Why does a country as powerful as The United States expect a country with limited resources to cure Americas' dependence on drugs? The Mexican government in response to this and the realization that narcotics pose a potential national security problem has initiated new programs to combat this obstacle. In 1990, Mexico took unprecedented steps to further the effectiveness of the war on drugs. More than 500 government employees, including high ranking officials, have been removed from office for corruption. Forty-six Mexican police officers and 24 military personnel have lost their lives in the fight for someone else's problem. [71] Mexico is willing to take responsibility for its problem but, with its pressing economic issues, it should not be expected to solve someone else's dilemma alone.

Although not all the issues can be solved with FTA, and undoubtedly new ones would be created, it is in the best interests of all three nations to continue seeking to understand each other. FTA is a good beginning. As the neighbors begin to comprehend their respective perspectives, many issues might be resolved amicably. Hopefully our governments will give us that opportunity.

CHAPTER 6 - THE NEGOTIATIONS

As has been demonstrated previously, all three countries would benefit from the proposed Free Trade Agreement. Therefore all three countries are anxious to begin negotiations. But as Israel Guerrero said; "The negotiation will take as much time as needed... one year, two years. We are not in a hurry." [14] Salinas has acknowledged that internal politics in Canada, Mexico and The United States could still derail the trade pact he seeks. [25] Hesitancy is displayed by the U.S. and not the other two countries. [55] The Bush administration has stated that workers' rights and environmental problems should not be part of the negotiations and therefore will not be included. [28]The Mexican government has made it clear that these negotiations are about trade and nothing else. [23] But American politicians have begun to attach conditions that have nothing to do with trade. The Chairman of The House Foreign Affairs Committee has publicly urged President Bush to put environmental and worker issues on the table when the proposed negotiations begin. [17] Others, like Gephardt have threatened to stall negotiations if these are not included. [19] No matter what types of negotiations are initiated, the Senate Finance Committee will have to approve any treaty that President Bush forwards to Congress. [73] The only way that these negotiations can be brought to an acceptable conclusion will be if The United States Congress authorizes the Bush administration the authority to continue negotiations under the Fast Track provisions.

According to Lori Wallach, Staff Attorney for Public Citizen Congress Watch, the Fast Track procedure allows Congress only a yes or no vote on a completed trade agreement. Members of the American Congress cannot do anything to modify any terms of the agreement. [60] If Fast Track is not approved, then 20 to 30 Congressional Committees would have to consider a new trade treaty before it could become law. [(3)] The Canada-U.S. FTA, which took effect on January 1, 1989, almost ran aground on close votes in these committees. [(4)] U.S. Secretary of Commerce, Robert Mosbacher recently said during an interview that the U.S. could lose its economic footing if Congress does not approve a Fast Track provision for FTA. He continued; "To do otherwise would remove the U.S. as an economic leader in the world, it would be a step backward. No other country would negotiate with us because of the fear that Congress would take any agreement apart." [(26)] Salinas emphasized that fast track; "does not mean fast negotiations", and that he planned to pursue Mexico's interests; "carefully and prudently." [(25)] The United States Congress must vote on Fast Track by June 1, 1991. If not, the Fast Track provision will be approved automatically. [(34)] Opposition to Fast Track comes from environmental and labor groups who do not want to see their respective concerns excluded from the negotiations. [(21)]

The White House hopes that the Free Trade Agreement is well on its way before the November 1992 election campaigns beginning in the U.S. Once these campaigns begin, business in Washington comes to a virtual stand-still. President Carlos Salinas de Gortari would like the negotiations completed and implemented by the time he leaves office in 1994. Although, the American-Canadian FTA took four years from start to finish, [(34)] all three governments hope to have the negotiations completed by 1992. All three expect to have a transition period of at least ten years to implement FTA, so that all the economies may have enough time to adjust. [(54)]

CHAPTER 7 - CONCLUSION

Let us not forget what Ocatvio Paz said; "the precedent of European integration is very important for the future of our region." [(52)] As our world changes, we should strive for a better understanding of our neighbors, and maybe even begin to integrate our cultures together, picking from the best and discarding from the worst, without losing our national identities. As the negotiations intensify, let us all remember that they are not only negotiations between countries but negotiations between people. One of the biggest pools of available labor lives right next door to the biggest consumer market in the world. [(13)] Let us all take advantage of this to better our respective world. As Octavio Paz once said, "Now we are condemned to live together, the past and the future side by side"; when talking about Mexican-American relations. [(58)] Let us learn from each other and strive to become friends, maybe, one day we will all reach across the border and offer each other an abrazo instead of a hesitant handshake.

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